

Concerning CWB Elections

CWB Elections: Those That Can Vote, Should Vote

There are farmers saying they won't vote in the CWB elections because they don't grow CWB crops. They say that they really don't care what the CWB does or doesn't do because it doesn't have anything to do with them.

Well, it does.

Delivery of CWB grains is restricted by the CWB "calling" grain into the system – you'd like to deliver more but you can't. As most farm bills come due in the fall, farmers need to sell grain to pay the bills. Since they can't deliver enough CWB grains to pay the bills, they sell something else.

A friend once joked that he grew peas so that he could pay his durum production bills in the fall. It'd be funny if it wasn't true. Between the low Initial Payment and 50% contract calls, there just isn't the cash flow needed to cover the input costs. So peas or canola or some other crop carries the burden.

Canola is the big one – the big non-CWB crop that gets sold at harvest or shortly after to pay the bills. The problem is that too much canola gets pushed into the system in the fall. As canola stocks build in the primary elevator system to more than a million tonnes in most years, the basis can weaken by as much as \$30/tonne (or more) – we've all seen it. This is not elevator companies taking advantage of you because they know you need to sell - grain handlers use price to get farmers to slow down on deliveries and – at the same time – to get buyers to buy more (or attract price sensitive buyers, like Mexico). Once the stocks in the elevators begin to get cleared up, the basis works its way back up to as much as even money to futures, as buyers look for prices that will now attract new deliveries into the system.

Feed barley is another big one. I've already talked a few times about the current export feed barley program that is costing all feed barley producers – even those that don't sell to the CWB – millions.

The CWB's passive system of "inventory management" makes the whole system – for all crops – dysfunctional. Whether they are manipulated, managed or free, markets provide signals and incentives to both buyers and sellers. In western Canada, since they get the same price regardless of when they deliver, farmers have the incentive to deliver wheat early in the crop year (instead of holding it for later delivery); yet they can't deliver any more than the CWB allows. On the other hand, the canola market gives incentives (signals) to sell for delivery later in the year; yet many can't as they need the cash now, not later.

When the CWB states it doesn't distort markets, it's wrong. Among others, it distorts the markets for all the non-CWB crops grown in western Canada. And it's not to the benefit of the farmer.

Don't think for a minute that because you don't sell to the CWB that it doesn't concern you. It does. If you're a grain farmer, and even if you don't sell grain to the CWB, your vote in the director's election is important.

The CWB Director Election is Important

The CWB directors' elections are upon us. The ballots have been mailed out. It is now prudent to review where candidates stand and the track record of incumbents.

There are three incumbents running for re-election. Henry Vos (District 1), Allen Oberg (District 5) and Kyle Korneychuk (District 7).

Vos is known to support positive change. According to his election material, his vision for the CWB is "A Canadian Wheat Board where farmers have the freedom to operate and manage their businesses with relatively few restrictions." It also states "During his past term as a director, Henry has worked constructively for change to increase the value of wheat and barley to farmers."

Oberg is an unwavering advocate of the single desk. In his profile, he states "I am convinced that the single desk is fundamental to a strong and viable CWB."

Korneychuk is also a staunch guardian of the single desk. He states "I firmly believe that the CWB with a single desk mandate provides the largest benefits to all producers".

The following is what occurred at the CWB during their term – since 2006:

Administration costs since 2006:

- CWB overhead costs have risen by about \$9 million (13%).
- HR costs have risen by about \$6 million (16%).
- Communications expense has risen by about half a million (30%).

The Single Desk performance since 2006:

- Premiums the CWB may have achieved were overwhelmed by other factors that kept returns at or below annual market averages.
 - Wheat pool averaged about \$30.00/tonne below annual market averages.
 - Durum pool returns averaged about \$7.00/tonne above annual market averages.
 - The malt barley pool returns averaged about \$50.00/tonne below annual market averages.
- Delivery into the durum and malt barley pools was restricted.
 - 08-09: 81% acceptance on durum (in a market offering well-above average prices).
 - 09-10: 52% acceptance on durum
 - 08-09: malt barley pool was closed to new selections half way through the year.
- In 07-08, the CWB lost \$226 million in discretionary trading in the pools (mainly wheat).
- Most years, the CWB held back from the market the true value of the export market, thereby having a seriously negative impact on domestic feed barley values. About \$50/tonne in 07-08, \$8.00/tonne in 08-09, unknown in 09-10, and \$50.00/tonne in 10-11 (currently).

Producer Pricing Options and the Contingency Fund since 2006:

- The CWB lost a total of \$94 million in the PPOs (06-07 to 08-09; 09-10 information is not available yet).
- The Contingency Fund was drawn down by about \$41 million. It went from a \$44 million positive balance in 2006, down to a \$29 million deficit in 2007-08, and back up to a \$3 million positive balance in 2008-09.
- In 08-09, the PPOs “earned” \$25.00/tonne, one of the largest amounts taken from participants ever, as the CWB tried to cover the losses in the Contingency Fund. The Early Payment Option “earned” \$15.00/tonne, by far the largest amount taken from participants ever in the life of the EPO program, also to cover the deficit in the Contingency Fund.

Evidence suggests that the single desk has not generated any net benefit to farmers and has been responsible for a serious drain on the Western Canadian economy over the last four years.

All candidates need to stand up for what they believe. Incumbents have the added accountability of what they did while on the board to improve the CWB for farmers. Those that are unwavering proponents of the single desk such as Korneychuk and Oberg and other new candidates need to explain why they think it is beneficial to farmers in the face of overwhelming evidence to the contrary.

These candidates have indicated they support the status quo (protecting the single desk):

District 1: Dan Gauthier
District 3: Lynn Jacobson, Brett Meinert and Stewart Wells
District 5: Allen Oberg
District 7: Kyle Korneychuk
District 9: Garry Draper and John Sandborn

All these candidates should be asked what evidence they have that the single desk is a benefit.

From what I can gather, these candidates support change (even if it means changes to the single desk):

District 1: Henry Vos
District 3: Brian Otto
District 5: Vicki Dutton
District 7: Terry Youswa
District 9: Ernie Sirski

All these candidates should be asked what they would do to change the CWB for farmers' benefit.

All farmers need to take this election seriously. I've heard about farmers that don't care about the elections or don't agree with them so they don't bother to participate. (Some even toss their ballots out into the garbage can in the post office. Don't! There is talk that ballots have been taken out of the garbage and submitted by unscrupulous characters - you may not agree with their choice!)

Even if you don't grow CWB grains, you are impacted by decisions and actions of the CWB and its board of directors.

Even if you don't believe in voting for CWB directors, your vote is important.

If you qualify, vote.

“Single Desk” Candidates vs “Change” Candidates

It's been said that the CWB director candidates that have stated their support for the single desk are being more honest than the ones that have not declared. Kevin Hursh, the ag commentator from Saskatoon, even suggested the ones who have not declared were trying to mask what they truly believe. He and others in the media want candidates to come clean on this one issue.

This is fascinating to me; some candidates are being criticized for not stating "front and centre" their view of the single desk. Yet the single desk candidates are being lauded for taking a position on the single desk issue, even though they don't have anything to say about real marketing issues in any of their election material. They just say we must keep the single desk because its what gives farmers power, or gives farmers better prices.

In the interests of full disclosure, I have some questions for all the single desk supporting candidates:

1. How do you rationalize your support for the single desk in the face of so much real evidence (even from the CWB itself) that shows that the single desk is not getting top returns for farmers and is arguable an economic drain on Western Canada?
2. Why do you state your firm support for the single desk and yet never talk about its marketing performance on behalf of farmers?
3. Why do you only talk about the non-marketing activities of the CWB – fighting the railroads, WTO, GMO wheat, and other advocacy roles – but don't talk in detail about marketing?

Not one single desk supporting candidate has ventured a public comment about the durum wheat fiasco we are facing right now. None talk about feed barley exports and how the CWB program is costing all farmers. And none address the problems with feed wheat pricing.

If the single desk marketing system is a fundamental part of your platform, why not address these issues?

Arguing your case on the basis of whether you are for or against the single desk reduces the election to nothing more than an ideological exercise that is, for all intents and purposes, a stalemate. Apparently this is what the media would like to see.

You will never convince some people that there are any problems at all with the single desk. And others will never venture off the “just get rid of the CWB” position. Focusing on a singular issue like this disenfranchises the majority of producers out there that are sensible business men and women and would appreciate a sound business approach to CWB governance. When candidates put themselves in one category or another on just the single desk issue, it doesn't give these people much to go on. Business-minded farmers want a director to just get on with the business of making the CWB work for them. As Vicki Dutton, candidate in District 5 put it in her election material, either “lead, follow or get out of the way”.

Embracing an ideological position without facts is an impediment to sound judgment. What should matter is if these candidates are willing and capable to make the appropriate decisions to make things at the CWB better for farmers. Sorry to be blunt, but those candidates that take a strong stance in defense of the single desk, just appear to be close-minded to me.

What would they do if it was shown that the single desk is not working and there's a better approach? What if it was proven that a dual market could work very well? I suspect these candidates would still vote to keep the single desk.

If you're not capable of arguing about the details about marketing with or without the single desk, perhaps you don't have the depth to be a CWB director. The real way to govern the CWB is to put your ideology aside for minute, and rationally and reasonably assess the issues for what they are. Then address them in the most effective way possible for the benefit of farmers (not for the benefit of the CWB).

What concerns me are directors who say they will protect the single desk on ideological grounds and ignore what the CWB's own data is telling him. What I appreciate is someone who says – if it needs fixing, let's do what is needed.

Single desk directors and their supporters have had their chances to fix the single desk and they have failed. It seems to me that if someone is willing to face reality and make things better, then they should have a crack at it, regardless of their "ideology".

And under the circumstances, it's pretty clear that the single desk would be targeted - at least by those who have not stated their position on the single desk.

What's it Going to Take for Status Quo Supporters to See What's Going On?

In 2001-02 the CWB transferred \$7.1 million in interest revenue from the feed barley pool into the Contingency Fund.

- It now has a policy that allows it to arbitrarily transfer whatever amount of the feed barley interest revenue it believes it should so that interest revenue doesn't distort the feed barley price.
- The drivers here are (1) what the Contingency Fund needs and (2) what the CWB believes is the "right" price for farmers selling feed barley. In any other world, this would be considered manipulation.
- CWB staff has told me that the interest revenue isn't being taken out of the feed barley pool; rather, they say it goes directly into the Contingency Fund. This is convenient for them because this way it doesn't look like the CWB is taking from feed barley producers and artificially setting the feed barley price. BUT – check out the annual reports; in 2007-08, there was \$948,000 in interest revenue reported in Pool A and \$1.236 million transferred out to the Contingency Fund.

<http://www.cwb.ca/public/en/about/investor/annual/archive/>

In 2002-03, domestic maltsters in Alberta imported malt barley from Denmark because of price signal failure by the CWB.

- This is from Bob Sutton, President of Rahr Malting in Alix Alberta:

The CWB was overly cautious about increasing the PRO while feed barley prices rose sharply due to the drought, leading farmers to avoid CWB pool contracts for malt barley. The malt industry first took the drastic step of guaranteeing the PRO to inspire some confidence in the price. Meantime, we needed to make sure we had low protein barley and the EU hadn't figured out yet how bad our crop was, so we made the purchase and when the news hit that Canada's crop was so bad that we were importing from the EU, prices jumped.

- The CWB argued that the quality of the barley crop that year didn't meet malt specifications, forcing the maltsters to import. Ask the maltsters and farmers in the area – the quality was there, but the CWB malt PRO wasn't competitive to domestic feed prices.
- At 891,000 tonnes, it was the smallest malt barley pool in recent memory.
- With proper price signals, there would be no imports and malt prices to farmers would have been higher
- Estimated cost: \$40/tonne on about a million tonnes = \$40 million lost revenue for farmers
- Worth considering – the quality of the crop this year is about as bad as it's ever been, yet no one is importing barley from offshore.

<http://www.cwb.ca/public/en/about/investor/annual/archive/>

In 2007-08, the CWB lost about \$90 million in the PPOs due to inappropriate hedging and \$226 million in the wheat pool account due to “discretionary trading” (speculating).

- It's likely the CWB used the same “hedging” strategy in the pool account as in the PPOs and so it's equally likely that the CWB took similar losses in the pool account (on top of the “discretionary trading losses”) – but there is no way to find out.
- Estimated cost to producers: in excess of \$300 million

<http://www.cwb.ca/public/en/about/investor/annual/archive/>

In 2009-10 and 2010-11, the durum market at the farm level was in total disarray.

- CWB accepted only 52% of the 09-10 crop
- Poor deliveries combined with low Initial Payments, farmers began selling high quality durum into the domestic feed market
- Vessels on demurrage because the CWB couldn't get the durum
- Cost to farmers: many millions

<http://www.cwb.ca/public/en/about/investor/annual/archive/>

In 2010-11, the CWB initiated a feed barley export program that hid much of the export value from farmers.

- A more fluid program providing good price signals back to the prairies would have increased domestic barley prices
- Estimated cost to farmers: in the hundreds of millions.
<http://www.cwb.ca/public/en/farmers/contracts/cashplus/gpbarley/>

Over the years there have been higher handling costs for regulated CWB crops.

- In 2008-09, Western Canadian average “net-backs” (handling, cleaning, CWB expenses, etc - excluding freight):

CWRS = 28.91

Durum = 48.47

Canola = 5.65

(The reason canola is lower – competition and no CWB costs.)

- Even a \$20/ tonne difference is worth about \$400 million annually
http://www.quorumcorp.net/current_report.html

Every year, non-CWB crops are sold in the fall to pay for input costs, including those for CWB crops.

- It has been estimated that canola farmers receive in excess of \$60 million LESS annually due to this excess selling pressure. Include all non-CWB crops, and the cost to farmers is closer to \$100 million annually.
- Add to that the cost of additional on farm storage required for CWB crops that can't be delivered, and the cost is even higher.

CWB pool prices net to farmers are consistently below crop year average farmgate prices in the US northern plains.

- Considering the last 7 years, the pool returns on spring wheat and durum have consistently been below the US average street price.
- Applied to the whole pool, this totals over \$3 billion in revenue below what average US prices would have provided.
<http://www.cwb.ca/public/en/farmers/payments/>
http://www.mgex.com/history/historical_new.cfm

All these “situations” occurred under the status quo with the single desk. However, not one director candidate that is running on protecting the single desk has addressed any of these – or any other unfavourable situations that the single desk is responsible for. Instead, they argue about what they

believe will happen if the single desk is lost; curiously, they never talk about how problems like these will be avoided.

There are candidates that are running on platforms that are focused on changing the way the CWB does business. They recognize that there are problems with the CWB that are costing farmers a great deal and are willing to address them.

Considering these “situations” listed above, which candidates make more sense? The ones that want to correct these costly episodes, or the ones that are turning a blind eye to them and perhaps even believe that nothing is wrong? Once they're at the board table, which ones will work at improving these situations?