

## Concerning Durum

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### Is this the deal you want?

Durum should be the Jewel in the Crown of the CWB. We produce consistent high quality; we grow more durum than any other single country in the world; and we are the largest exporter in the world with about 50% market share. Yet the durum market in Western Canada is in utter shambles right now.

Using real rough numbers because everyone's experience is a bit different, I estimate it takes about \$140 an acre to produce a crop of durum. A typical yield might be 40 bushels/acre. The CWB organizes deliveries into the grain handling system through a "contract call" system. Most farmers sign up 100% of their production for acceptance into the grain handling system, but the CWB decides how much you get to deliver and when.

Last year's (09-10) durum producers saw the following:

- Initial payment was roughly \$3.50/bu in Alberta and Saskatchewan
- First Contract Call (Series A) was for 25% of contracted tonnage (this means you could deliver 25% of the amount you contracted with the CWB)
- Second call of Series A (Dec 17) was for 15% (for a total of 40% of your crop by this point)
- There likely won't be a final payment, so the Initial is all there is.

Using a typical yield of 40 bu/acre, this means that prior to Christmas, durum farmers could only deliver 16 bu/acre and receive the equivalent of about \$56/acre. With cost of production around \$140/acre, the typical durum farmer was about \$84/acre short against his durum expenses.

That's more than a \$13,000 deficit on a quarter section.

The next Contract Call (in Series B) was on April 20 for 20%. Since only 40% was taken in Series A, the balance is rolled into Series B and included in this call – the net effect is that this call is for 12% of the original contract. This allowed delivery of 4.8 bu/acre and netted about \$18/acre.

Total payment at this point was about \$74/acre.

And that was it: the CWB accepted only 52% of the crop. This means the typical durum producer received a total of about \$74/acre for a crop that cost him \$140 to produce. Durum farmers were left with a deficit of about \$66/acre, or about \$10,500 per quarter of durum.

This year's (10-11) Initial Payment is about \$1.74/bu to farmers in Alberta or Saskatchewan. So far, the CWB has called for 50% of what has been offered. Assuming the same yield of 40/bu acre, this means that all a durum producer can sell is the equivalent of 20 bu/acre and receive about \$35/acre.

Assuming the same cost of production as before, this year's durum farmers have a deficit of \$105/acre, or about \$17,000 per quarter section.

If you grew the same acreage and same yield of durum in both of the last two years, on a quarter section, you have:

- produced a total of 12,800 bushels
- sold 6,500 bushels
- stored 6,300 bushels
- paid production costs of \$44,800
- received from the CWB \$17,200
- a hole in your bank account to the tune of \$27,600

On a full section the hole is much bigger - \$110,400.

Right now the CWB is looking for #1 and #2 Durum and it appears that they are having trouble getting it. The fact of the matter is that many, many durum producers have sold their high quality durum into the domestic feed market to generate cash. And now it seems the CWB could struggle to cover sales because they were counting on the durum that was stored on farms.

One more thing. The street price for durum right now in Montana is \$8.60/bu. In Canadian dollars that's roughly \$8.77/bu. And the US durum farmer can sell his whole crop right now. At 40bu/acre, that's \$344/acre, or \$55,000 per quarter. Not only can he pay his bills, he can put some money in the bank. And before you suggest that the US support programs have anything to do with this price – they don't. The loan levels are so far below this price that they will never kick in.

If the CWB system is so good, and we're so dominant in the global durum market, why can't Canadian durum farmers even cover their cost of production with revenue from growing durum while American producers can (and even earn a tidy profit as well)?

## Current Durum Situation

Did you know?

- The CWB is scrambling for high quality durum right now. Partly because of the late fall and partly because of the poor quality crop. In addition, there may be less of last year's higher quality crop available than the CWB was counting on as much of it was sold by farmers into the domestic feed market to satisfy cash flow needs.
- Terms on sales to Japan include a high protein content, something the CWB is struggling to satisfy right now. I'm told that the terms will be adjusted for the new crop but the new terms won't kick in until Jan 1, 2011. This is just one more problem for the CWB this fall.
- These struggles are showing up in Vancouver. On a vessel that the CWB shared with Cargill, the CWB loaded 10,800 tonnes of durum and Cargill loaded 14,700 tonnes of canola. Cargill

loaded the canola in about two days and the CWB took another 21 days to load the durum. The CWB (farmers) will pay the demurrage bill on the whole vessel.

- Another durum vessel (60,500 tonnes) has been in port since Sept 19 and has yet to finish. I'm told it'll be another week before it's loaded. It's been in port long enough for a hefty demurrage bill. This will be the first time in a very long time that a vessel arrived in September and didn't leave until November.
- There is a rumour that the CWB has shipped high grade durum against a sale of feed wheat to South Korea. The CWB is indeed shipping durum on this sale, but its #4 and #5 durum, which is applicable on most feed wheat sales.
- Delivery calls on Nos. 1 and 2 CWAD are now in place and the CWB will terminate the first 25% call effective Nov. 29, 2010. (This is a signal from the CWB to get farmers to deliver; it's thought that the prospect of losing the delivery opportunity will get guys to deliver.)
- In addition, a Guaranteed Delivery Contract (GDC) with 100% acceptance has been announced for Nos. 1 and 2 CWAD.
- But there's another factor. I'm hearing many producers are angry and frustrated with the poor movement and poor prices on durum; many have said that they believe the CWB dropped the ball on the very high prices we saw a year or two ago. Whether they did or not is a topic for another debate; in frustration, these growers are saying they refuse to deliver any high quality durum to the CWB until they see a full (and attractive price).
- Whereas I understand the frustration, holding grain back will not solve the problem. The CWB will either find the durum somewhere else, or adjust contract terms and possibly pay penalties. In the process they are already paying demurrage. But when I say the CWB will pay, it really means durum farmers will pay. It could also mean the loss of confidence in Canada as a supplier and the loss of future sales to our competitors (remember, the US has a lot of durum right now). It may be satisfying to hold back to send a message to the CWB, but it will come at a hefty cost to you. Ironically, it's your choice.
- The CWB recently released a commentary where they say "recent negative commentary has been circulated to farmers painting a highly misleading picture of the realities of international durum marketing and the decisions made by the CWB as Prairie farmers' durum marketer." Obviously I thought they were referring to my commentary "Is this the deal you want?" Reviewing that commentary, I saw that it only spoke of the realities of poor cash flow from durum under the CWB system and what that means to farmers. I guess there must be some other "negative commentary" out there that I'm not aware of.
- From a farmer's perspective, the durum situation is definitely in a shambles. But there is good movement available right now and all durum producers should take advantage of it.
- The best place right now to send a message is in the director's election.