

## Concerning Governance

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### The Contingency Fund

The Contingency Fund was established to underwrite the Producer Pricing Option programs to ensure that program operating gains or losses will not impact the pool accounts.

The way it was meant to work: when the CWB determines the prices for Fixed Price Contracts and other PPOs, it always includes a discount for risk. It takes a little protection. So if all goes well, it has some money left over after paying farmers the contract price. That something extra goes into the Contingency Fund. If the CWB loses money – even after the discount for risk – the losses are covered by the Contingency Fund. This flow between the PPOs and the Contingency Fund is what was envisioned.

But the Contingency Fund of today looks very different than what was conceived back in 2000.

The largest “contributor” to the Fund is “cash trading” in feed barley with a total so far of \$22.2 million. About \$20 million from feed barley trading went into the Fund in 2007-08 alone.

The second largest source of money is interest revenue from the feed barley pool account. Starting in 2001-02, the CWB said it did it to “avoid distorting the price relationship between feed and designated barley.” The CWB moves feed barley interest into the Contingency Fund almost every year now, the total so far is \$19 million.

Even though the purpose of the Fund was to ensure that PPOs would not impact the pool accounts, in practice the pool accounts have been hit a few times by transfers to and from the Fund. In 2004-05, \$7.5 million was transferred from the Fund to the pool accounts. In 2007-08, the CWB moved \$25.5 million from the pool accounts into the Fund and \$18.0 million back into the pool accounts in the following year.

Perhaps most notable is the fact that the PPOs have been a drain on the Fund to the tune of \$72.1 million since it started.

If it wasn't for barley – both pool interest and cash trading – the CWB would've been forced to find some other source of revenue to prop up the Fund. Barley (in one form or another) has contributed about \$48 million while wheat and durum have drawn the Fund down by about \$42 million.

Doesn't it make you wonder? When the CWB discounts the prices it pays farmers in the PPOs as a form of protection, why has the CWB lost so much money over the years in PPOs? So much in fact that it has had to subsidize the Contingency Fund over and over again with other sources of revenue. Even from the pool accounts.

There's got to be a better way.

## 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 Doesn't Need the Single Desk to be a Producer Advocate

Single desk supporters often say that the CWB and its single desk need to be protected at all costs because it is such an important and effective lobbyist on behalf of farmers.

For example, Allen Oberg, director candidate for District 5, says "Building on the strength of the single desk, the CWB is speaking out more and more for farmers." He gives examples of issues where CWB is acting on behalf of farmers: a railway costing review, producer cars, WTO, branding of Canadian wheat and terminal agreements and tendering. His message is, if you lose the single desk, you'll lose your voice on these matters.

I disagree that the CWB needs the single desk to be a producer advocate. Take a minute and look at the Canola Council of Canada and what it does for the canola industry (including producers), without being involved in selling canola or its products.

The Canola Council of Canada is a national, non-profit association with a mission to enhance the industry's ability to profitably produce and supply seed, oil and meal products that offer superior value to customers throughout the world. And it does a darn good job of it. Members include **canola growers**, crop input suppliers, grain handling companies, exporters, processors, food and feed manufacturers and governments. It's a good model to consider for the CWB.

The Council has a number of policy positions similar to the CWB:

- Equitable grading standards
- Accountable, open, competitive and commercial system of grain transportation
- Equitable treatment and level playing field under WTO
- Domestic and North American harmonization of pesticide regulations
- Canadian variety registration system and maintenance of high quality standards in that system.
- Mandatory labelling guidelines

In addition, the Council has successfully branded Canadian canola products; in fact the name "canola" indicates a Canadian identity.

Even without the single desk, the CWB could continue to play an activist or advocacy role for wheat and barley producers, much like the Canola Council does for the canola industry.

The Canola Council's average annual budget of \$5 million is funded by:

- a voluntary levy paid by processors and exporters;
- program grants received from corporate and grower organization members for specific activities (the largest sources being the canola grower check-off commissions in each of the Prairie provinces);
- government programs, both federal and provincial; and
- funds raised by Council program areas such as the Council's Annual Convention and the sale of publications.

Looking at the CWB, assuming annual exports and domestic use of 20 million tonnes of wheat, durum and barley, the CWB could generate twice as much as the Canola Council's budget with a grower check-off of only \$0.50/tonne. This compares quite favourably to the current (2008-09) cost of the CWB of about \$3.26/tonne, paid by farmers.

CWB supporters like Allen Oberg will use the fear of losing the advocacy of the CWB if it lost the single desk as a way to garner support for the status quo. Mr. Oberg isn't alone in this thinking. Other candidates that echo this same message include:

- Dan Gauthier, District 1
- Lynn Jacobson, District 3
- Garry Draper, District 9
- Stewart Wells, District 3
- Kyle Korneychuk, District 5
- John Sandborn, District 9

As I've shown already, the single desk is costing farmers millions. Don't embrace it just to protect the CWB's advocacy role; it's just not worth it. Judge it on its own.

Ask your director-candidates to explain why they think the CWB needs the single desk to be your advocate and to promote wheat. And ask them how they think the Canola Council can do it so well without one.

## The Debate Gets Personal

I have received a copy of a "letter to the editor" signed by Ian Robson from Deleau, MB. It is a direct response to, and criticism of, my commentaries, and a personal attack on me. His letter is an excellent example of how the guardians of the CWB – those that argue aggressively against any negative comments about the CWB, even those substantiated with facts – use rhetoric, fear and even personal attacks to change the channel or divert attention away from the real issues.

His letter follows my comments.

First, I make no apologies for my comments or my position. I am a fierce proponent of all things efficient; all my views are through the lens of efficiency and the benefits it brings to the whole market and value chain – farmers, grain companies, processors, and ultimately the consumer. Unlike Mr. Robson and others, I believe there is more wealth to be created through greater efficiency and that farmers and grain companies can both be more prosperous. I don't believe that when one gains the other loses; Mr. Robson appears to believe (as do other guardians of the single desk) that if grain companies are making more money it must be coming out of the farmer's pockets.

Whereas I welcome the debate, I am disappointed in the lack of substance brought forward by Mr. Robson. Rather than attack me as a "CWB slagger", it would have been more beneficial for all involved if Mr. Robson provided clear evidence of his support for the single desk and the CWB. Even though he argues that my arguments are hard for him to understand, he doesn't counter with anything factual to substantiate his argument or to discredit my facts and conclusions.

Mr. Robson's approach assumes I am working to put an end to the CWB. Since I have never taken that position, even on this he can provide no evidence. I see how the CWB is not providing the

net benefit that the farming community deserves and it needs to be changed or improved. To me, that means the possible end of the single desk. If to Mr. Robson the end of the single desk means the end of the CWB, then he should make that clear.

I apparently have failed at explaining the weaknesses I see in the single desk. Let me try one more time:

1. The single desk is responsible for export feed barley prices NOT being translated to the domestic market. This means that the local price of barley to the local feed lot or feed mill stays lower than it would otherwise. Farmers end up selling barley locally for a lot less than they would otherwise. This costs farmers a lot of money. If the CWB used a system to translate the price better (better price transparency) then all farmers would get higher prices, and grain companies would make no more than they do now handling CWB barley.
2. The single desk (and pooling) is responsible for a low initial payment and poor movement which, combined, has created financial hardships on durum producers. Because of the lack of cash flow, many durum farmers sold high quality durum into the local feed market. Now the CWB is scrambling for high quality durum for offshore sales; one vessel has been in Vancouver since Sept 19th and is still waiting for durum. The demurrage bill will be in the millions and will be paid for by farmers. If the CWB provided better upfront pricing and more flexible delivery options, this would not have happened.
3. Price comparisons show the pool returns are consistently below THE LOWEST daily prices over a crop year that the US farmer can sell at. Even if the US farmer sells at the lowest price he sees all year, he still gets more than Western Canadian farmers.

If Mr. Robson and his colleagues cannot see that these represent hundreds of millions in losses by the single desk to him and his neighbours, then I'm afraid I am not equipped to convince him otherwise.

But I will repeat – when it comes to CWB board candidates, give your full consideration to those candidates that are willing to look critically at all the CWB is doing. It must work for farmers to be sustainable. And that means judge on more than rhetoric; consider those candidates that are willing to make hard decisions.

But most of all, ask any incumbent who stands to protect the single desk, what they've been doing for the last four years. They've got a lot to answer for.

Mr. Robson's letter:

*Dear Editor*

*For some time now private market commentators have slagged the CWB. These attacks alternate between the paid for puppet farm organizations like the Wheat or Barley Growers and the direct Trade paid market commentators.*

*Commentator Mr. John De Pape, as a former Cargill employee and a tireless promoter of margin trading activities is one of these CWB slaggers. His reports are laden with*

*meaningless jargon designed to make him sound like an academic criticizing the Canadian Wheat Board. This rings more than a little hollow when you realize that the CWB returns more than 95% of market revenue back to us as the benefiting farmers. The demise of the CWB would allow Mr. De Pape and his private trade friends to profit from more margin trading at the expense of farmers.*

*How reliable have Mr. De Pape's comments been? In 2003 he said barley exports had dwindled to "insignificance." In the same report he also complained it is "short-sighted" for the CWB to charge a premium price to U.S. and Canadian malsters. This is a magical way of saying farmers should take less for their grain, presumably by allowing Mr. De Pape and his friends in the private trade to claim their margin instead.*

*This is typical of Mr. De Pape's short sighted thinking. Fast forward to 2010, what do we see? The high Canadian dollar has taken the bloom off the cattle market, the Russians just stopped all grain exports, malting and feed barley sales are booming. Lucky we still have the Wheat Board to negotiate the best deals in all the market conditions. It is a good thing that nobody took Mr. De Pape too seriously back then, unless of course you count our failed ostrich farmer Federal Agriculture Minister and a few oil barony Alberta ranchers.*

*Is there a connection to this flood of self-serving trade commentary and this years' CWB Farmer Director Elections? Yes there is a connection. Please vote for Farmer CWB Directors that fully support the CWB.*

*Ian L Robson  
Deleau, Manitoba*

## **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.

## **It's all about listening and responding**

Did you know?

For at least the last 12 years the CWB has surveyed farmers on a variety of issues, from attitudes about agriculture to preferred marketing systems.

The proportion of farmers who were surveyed over the years who support the status quo (single desk) on barley ranged from 22% to 36%.

The CWB has done nothing.

In January of 2007, CWB officials met with Minister Gerry Ritz in Ottawa. In attendance were senior officials from the malting companies and the President of the Malting Industry Association of Canada. These representatives explained that the malting industry would not invest any more

capital in the malt industry in Canada as long as the CWB has single desk marketing authority. They were demanding changes.

The CWB did nothing.

The Canadian malt industry kept to its word and has not invested in any new capacity. However, since that time, China has built a great deal of capacity and continues to import Canadian malt barley and has now increased exports of malt dramatically. (From practically zero in 2004 to an estimated 375,000 tonnes in 2010.)

We have effectively exported our malting industry to China.

In March of 2007, the Federal Government held a non-binding plebiscite on barley marketing. Farmers voted and only 38% supported the status quo.

CWB Chairman Ken Ritter said:

“The results of the barley plebiscite announced today are not overly surprising. The CWB has been surveying farmers every year for the past 10 years and these results appear to be consistent with our annual findings.”

The CWB has known farmers’ views on the single desk for over ten years, and they have done nothing. They know the impact the single desk is having on the barley value added industry, and they've done nothing.

Earlier this year, the CWB hired a consultant to study the malt barley industry. The consultant apparently told the CWB:

- The Pool and CashPlus need to offer producers better price signals.
- The Pool and CashPlus need to offer malt companies improved delivery liquidity.

As far as I know, the CWB has done nothing with this study.

The CWB operates on behalf and for the benefit of farmers. Democratically, the majority of farmers have told the CWB over and over they don't want the single desk on barley; and the malt industry has told it in different ways what needs to be done to improve the malt industry (which also would benefit farmers). However, rather than act on any of this, the CWB does nothing but continue to argue adamantly that one of the options presented, the dual market, will not work. (I believe it can.)

This is all about listening and responding. Farmers know what is best for themselves. They need directors sitting at the CWB board table who won't override farmers' interests with their own ideology.