

## Concerning Misrepresentations

### 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 slappers. 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 NFU Wades into the Debate

This week farmers received a one-pager from the NFU explaining what it sees as the benefits of the CWB for producers. It requires a response; I will focus on the most glaring errors:

- Concerning wheat and barley premiums, NFU says the CWB gets big premiums, referring to two studies – a 1996 study by Kraft, Furtan & Tyrchniewicz and a 1997 study on barley by Schmitz, Gray, Schmitz and Storey. Long ago, the approaches used in both these studies were shown to be seriously flawed, as were the conclusions. I'm happy to give more detail – just drop me an email to [cwb@monitor.ca](mailto:cwb@monitor.ca).
- Concerning interest earnings, beyond having their facts dead wrong, they also contradict themselves. They say the net interest earnings were \$104 million per year and the 5-year average is \$29.8 million; can't see that happening plus both these figures are wrong. First, the net interest earnings have never been as high as \$104 million. Net interest earnings are currently around \$2 million; the 5-year average is \$26.4 million.
- So eager were they to update this sheet, they included this gem about the average interest earnings of \$29.8 million (their number): "These earnings more than offset the cost of staffing and administrating the CWB." Staffing and administration costs last year were \$79.1 million and the 5-year average is \$72.3 million – a far cry from \$29.8 million.
- Concerning revenues from terminal rebates, the NFU didn't even bother updating the figure from the last time they used this sheet two years ago. Under the circumstances, I won't comment on the figure. But, I will say that it's a stretch to give credit to the CWB for something the grain companies do. Sure the CWB tenders to the grain companies for railcars of grain, but it's the grain companies that respond with discounts to their typical charges. This shows what competition would do to costs if the CWB system wasn't in the way.
- As for despatch, either the NFU doesn't get it or they are intentionally misleading. Please read my last commentary about despatch to see that it is a false-economy to pursue despatch like the CWB does. Whereas the NFU suggests despatch is a gain, in actual fact it's a substantial cost.
- Concerning rail freight rates, the CWB was only one voice among many in the discussion. To give credit to the CWB like the NFU does, unfairly trivializes all the work many others did on this issue.

- Perhaps most glaring is that the NFU doesn't consider everything that the CWB does and its impact on farmers:
  1. High cost of handling CWB grains compared to non-CWBs. If they want to show how tendering provides revenues for the CWB, it's necessary to also talk about the high cost levels to begin with.
  2. Affect on cash flow due to lack of full-cash-on-delivery options. Durum is a perfect example this year.
  3. Affect on non-CWB crops like canola. Prices are pressured as farmers sell these crops to pay for their bills from growing CWB crops.
  4. Affect on domestic feed grains. Export prices aren't transparent and so are not allowed to help raise domestic prices.

In general, with this flyer the NFU show gains where there really aren't any and they don't show where there are true losses, or drains on the farmer and farm economy. I find it truly sad that the NFU went to all the trouble to put this together and all they showed was that they don't understand the topic.

Farmers are smarter than the NFU gives them credit for. Presenting a document like this, expecting farmers to accept it as presented, is an insult to the collective intelligence of farmers.

## Myths and Myth-representations About the CWB

Single desk candidates and others have made a number of statements to strike fear in the hearts of voters. Here are some of those statements along with my comments.

### **Without the CWB, farmers would be forced to market their grain directly to offshore buyers.**

Why would farmers be forced to market their wheat directly to offshore buyers when there are companies already set up to compete for this business? Do canola growers sell canola to, say Showa, in Japan? Farmers would market wheat the same way they market anything else.

A voluntary CWB would be in direct competition with the grain companies that it would rely on to ship its grain. Why would they handle the CWB grain and not their own?

Grain handling is a fixed cost business and there is over capacity. CWB tenders have shown what grain companies will do to get extra volume – they discount their fees by as much as \$20/tonne. If the CWB approached a grain company with the support of farmers representing a large amount of grain, the CWB could negotiate very attractive handling terms. Grain companies would work hard to get and then keep a sizable customer like that.

### **A dual market won't work.**

I think to most people, a dual market is one where farmers are free to choose who they sell to, including the CWB. In a dual market the CWB would not have a monopoly, or its single desk; it would be a participant in the market providing whatever value it can for producers. For example, I have shown in an earlier commentary that only about 17% of Western Canadian farmers deal with the CWB on barley,

either malt or feed (and that includes 100% of all the malt barley). In a dual market, if the CWB dealt with even 10% of all farmers on barley, this should be considered a success. It would tell me that 10% of all farmers find value in the CWB offering. The CWB doesn't need to handle everything to be considered a success.

On its website, the CWB tries to explain how a dual market won't work by giving examples from the 1930's. (<http://www.cwb.ca/public/en/hot/choice/myth/> ) These examples all depict a fixed price pool; I showed earlier that a basis priced pool would allow the CWB to compete very well.

#### **The dual market experience in Australia shows a dual market won't work here.**

Quite the contrary. In the first year after losing the single desk, AWB acquired over 25% of the Australian 08-09 wheat crop. It's pooling activities attracted 2.7 million tonnes while its "Grain Marketing" business unit acquired a further 3.4 million tonnes. I understand that some of the private companies also provide a pooling option. Pooling successfully offered alongside the "open market". Go figure.

#### **Getting rid of the single desk will be the end of the CWB.**

The single desk represents forced participation. In a dual market, with voluntary farmer support, the CWB could be very effective marketer - as long as its open to doing things a bit differently. A separate organization could be formed to address policy issues on behalf of the industry, including farmers (but voluntary), much like the Canola Council of Canada does for canola.

#### **The CWB risk management program has a lower cost than for non-CWB crops**

Truth of the matter is that the open market system, including competition and the use of futures has been proven to be a much lower cost system (not just here - anywhere in the world). For example, in 2008-09, Western Canadian average "net-backs" (charges that cover handling, cleaning, CWB expenses, risk management, etc - excluding freight) were reported as:

CWRS = \$28.91

Durum = \$48.47

Canola = \$5.65

The reasons canola is lower include competition and the lack of CWB costs. (These net-backs cover all relevant costs including risk management.)

#### **Working together, marketing through the single desk gets farmers better prices.**

Although it's nice to think this, and intuitively this makes sense, it is not supported by evidence. Even if it was able to get premiums, we have shown that the real costs and lost opportunities are much larger, presenting farmers with a net loss position. More streamlined models need to be considered but the majority of the CWB board of directors cling onto the status quo.

#### **The CWB does not distort markets.**

This is just wrong. Poor farmgate cash flow forces marketing actions in other crops that would not occur if the CWB crops were more responsive to market signals. The way the CWB has handled feed barley exports for the last four years has artificially kept the price of feed barley low in Western Canada.

Poorer net returns on wheat due to high costs and less-than-average prices contribute to increased acres of other crops, pressuring prices lower due to increased supply. Canada also has a smaller processing industry because of the single desk.

**Without the CWB, the US border will get slammed shut to Canadian wheat because there will be lines of trucks hauling south.**

The truth of the matter is that all the trade challenges brought forward by the US have been against the CWB – not import of Canadian wheat. (One challenge actually stated it was on wheat from Western Canada, not eastern Canada.) Canada enjoys an excellent trading relationship with the US on all sorts of other agricultural commodities; corn and soybeans coming from the US into Canada; canola, flax and oats going from Canada to the US. In fact the US imports more oats from Canada than it grows domestically. None of this trading activity has been hampered by trade actions – because none of these activities involve the CWB.

Feel free to write in with other myths or myth-representations that you would like to have discussed.

## More Misrepresentations

It's late in the CWB director election and the rhetoric has kicked up a notch.

There are eight candidates running campaigns around what they believe is the importance of the single desk. They all argue how important the CWB is to farmers as an advocate. The common strategy seems to say if the CWB loses the single desk, farmers will lose the collective power of the CWB on these non-marketing issues.

There are five other candidates running on platforms for change at the CWB, addressing marketing problems, including net returns to farmers and escalating cost issues. These five are apparently running on correcting or improving the CWB and its programs, addressing current problems.

Farmers have basically two choices; they can either vote for a candidate that is looking at solving current, real problems or they can vote for a candidate running a "what if" campaign, as in "what if" we lose the single desk.

The "what if" candidates seem to be itching for a fight over the future of the single desk but there's nobody there to take the other side of the argument. And now the media has stepped in and taken up the cause for the "what if" group. There have been a number of recent articles on how there are no candidates running to remove the single desk.

Unfortunately, the media seems to have bought into this notion that the election is all about the single desk. Never before has so much material about the current workings and activities of the CWB been provided to the media during an election (yes, from me). Yet during the whole election period (so far) the media has failed to pick up on any of it. (With the exception of this week's Producer where there will be an article about my blog – but still not about the content.)

It is really disappointing that the media have made a story of the candidates who have not declared their position on the single desk, yet have failed to talk about how the “what if “candidates won’t talk about current problems with the CWB. Isn't there a story in that?

Here’s the real story: there are five candidates out there that are saying, “Let’s not worry or argue about the future of the single desk right now – there are far too many other burning issues that should be dealt with right now”. They have changed the channel – past CWB elections have been about the single desk, but in this one, these candidates that are working at being more relevant. And yet some are trying to say they're not being honest. Give me a break!

### **CWB Alliance**

A new group has added its voice to the election debates - the Canadian Wheat Board Alliance. Its main offering is a website describing what they believe will happen if we lose the CWB or the single desk. It is totally aligned with the "what if" crowd. Nowhere does it address current issues facing farmers right now nor does it come up with any solutions.

And much of what they say is misleading– or just plain wrong.

It’s really unfortunate – even though they present some interesting material, it’s impossible to have any credibility because there is so much wrong or misleading material alongside it.

I could counter all the issues in detail to correct the Alliance. But to me, that’s not the story. The real story is the remarkable extent to which they will go to convince farmers that making any changes to the CWB is a huge risk. It is equally remarkable that they refuse to address current issues that need attention.

The Alliance and the “what if” candidates should be answering the question “What if the CWB and the single desk remains?” We all know the CWB's not going anywhere, so these candidates should be saying what they are going to do to improve the CWB.

Let’s recap some of the current issues:

- Durum: poor movement, poor pricing
- Feed barley: poor price signals, lack of arbitrage with the domestic market (domestic market held down)
- Feed wheat: lack of price signals
- Expenses appear to be out of control
- High system costs
- No evidence of premiums
- No fresh ideas

Ironically, a vote for the status quo means nothing will change, leading more and more farmers to revolt against the CWB – including some that might surprise you.

The "what if" candidates want to fight over the future of the single desk, but they don't address current marketing issues. Remember, the single desk is THE marketing instrument of the CWB. It would make sense to argue for the single desk on the basis of marketing performance and related issues yet this

group avoids that at every opportunity. Saying the single desk gets farmers the best returns without proof is not acceptable.

Either the CWB Alliance and the "what if" candidates don't understand the core marketing issues or they think there are no CWB problems facing farmers, which means they are out of touch. Or, they do understand the issues but are intentionally avoiding them.

I'm sure it's hard to make farmers fearful of losing the single desk when so many are talking about the marketing problems facing the CWB right now – problems that involve the single desk.

But the Alliance is still going to try.

## Despatch at the CWB: Not What You Think

A friend was telling me about a conversation he had recently with Allen Oberg, Chairman of the board of directors of the CWB. Frustrated by seeing durum vessels on demurrage, my friend suggested that the senior staff should pay for the demurrage out of their own pockets. According to my friend, Oberg responded by asking "should we give them the despatch as well?"

I doubt Mr. Oberg knows what he's suggesting.

Demurrage is a penalty paid by the shipper to the vessel owner for taking longer to load a vessel than you had negotiated. Despatch is a payment from the vessel owner to the shipper for loading faster than negotiated.

The CWB gets both in a typical year - demurrage on some vessels, despatch on others. The CWB reports these two income/cost related factors in the annual report as a net figure - one subtracted from the other. So, in 08-09, when the CWB racked up \$7.6 million in demurrage charges and \$15 million in despatch "earnings", it reported a "net despatch" figure of \$7.4 million despatch. In other words, the CWB reported only that its despatch "earnings" were greater than the demurrage charges by \$7.4 million. It looks like, on balance, it was a positive year when it came to loading vessels.

But the CWB leaves out an important factor, and I'm guess Mr. Oberg doesn't realize it or is looking the other way on purpose.

To earn despatch, the CWB takes less time to load a vessel than it negotiated for. But despatch doesn't cover the cost of the loading time that the CWB negotiated for in the first place. When you say you need 6 days to load, the effective ocean rate you get factors those 6 days into the total costs. The more time you negotiate for, the higher the cost.

So - when you say you need 6 days to load, guess what? You PAY for six days.

And when you use only 4 days to load, you get despatch for the two days you didn't use (but you still pay for them).

ALSO - despatch is only a **PARTIAL REBATE** of the charges for those days not used. Typically it's half the freight rate (or less).

Here's the thing that Mr. Oberg doesn't understand: when you get paid despatch, it has actually cost you.

When the CWB reports despatch payments without considering the full expenses, it gives an incomplete picture.

**SHIPPERS SEE DESPATCH AS A LOSS. NO ONE SETS OUT AHEAD OF TIME TO EARN DESPATCH, BECAUSE ITS SO COSTLY. CERTAINLY NO ONE ELSE SETS OUT EARNING DESPATCH AS A CORPORATE GOAL LIKE THE CWB DOES.**

For the CWB to "earn" \$15 million in despatch in 08-09, its safe to estimate that this represents excess loading days that cost the CWB in excess of \$35 million. After getting the despatch payments, the CWB paid out \$20 million for loading time they didn't need.

For 08-09, add the demurrage charges to the actual despatch costs and the situation was likely over \$40 million in losses.

Over the last five years, demurrage and despatch (including the freight cost) would likely total more than \$250 million in LOSSES. Because the CWB does not report the total despatch situation, it reported a net demurrage and despatch of \$26.7 million gain.

With all due respect to Mr. Oberg, I doubt he understands the true nature of despatch. I wonder if others on the board do either. If they did, why would they set a goal to earn \$4.5 million in despatch each year? Clearly they don't know that in reality, what they have set is a goal to lose at least \$10 million a year and likely much more.

I guess it just looks better than demurrage.