

Charting the path to marketing choice

Policy Roundtable on Marketing Choice for Wheat and Barley

Sheraton Cavalier Hotel Saskatoon, Saskatchewan

July 27, 2006

Summary Report Prepared by MDA Management Services

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The Government of Canada has committed to provide greater marketing choice to western grain farmers, while continuing to preserve a strong Canadian Wheat Board as one of those marketing choices. On July 27, 2006, it hosted a roundtable discussion about options for implementing this commitment.

This day-long policy forum, hosted by David Anderson, Parliamentary Secretary for the Canadian Wheat Board, was attended by about 60 people, comprised of farm organization and other industry representatives, individual grain producers, academics, Members of Parliament and government officials. Agriculture and Agri-Food Minister Chuck Strahl participated in the afternoon discussions.

Mr. Anderson welcomed the invited participants and explained that the purpose of the meeting was to flesh out the approach to provide western farmers with marketing choice. The Government would use this input to develop a proposal for wider discussion with all stakeholders. Specifically, the day's objectives were to:

1. share views on the corporate structure that would allow the Canadian Wheat Board (CWB) to operate effectively in an environment of marketing choice;
2. identify additional financial and/or marketing instruments that may be necessary for farmers or for the CWB in a marketing choice environment; and,
3. share views on the steps to implement marketing choice for farmers to market directly to any buyer, including the CWB.

Participants were invited to comment on each of these three areas. Most had submitted short papers outlining their views and these were circulated to all attendees.

In the ensuing presentations and discussions, almost all participants endorsed the merits of western wheat and barley producers having choice in how they market their crops. Most expressed confidence that this change will lead to better market signals and rewards for innovation, along with increased crop processing in Western Canada. There was unanimity that changes should be implemented in such a way that the Canadian Wheat Board remains competitive in both global and domestic markets and continues to serve farmers who wish to market some or all of their grain through the CWB. As one organization noted: "We are not in favour of destroying the Canadian Wheat Board, only in making the use of it by producers voluntary so it remains a tool in farmers' marketing toolbox, but not the whole toolbox as it is now."

The following sections draw out the core principles and key points supported by a majority of participants during the meeting and in the written submissions.

Corporate Structure

Nearly all interveners emphasized that a revamped Canadian Wheat Board must be voluntary, be a commercial entity and operate on a level playing field with its competitors. Views on optimal corporate structure ranged from no significant changes to the existing structure, to a Crown Corporation, to a commercial corporation or a new generation producer cooperative. Most participants declined to be prescriptive, suggesting that in order to succeed, the CWB needed the leeway to develop its own structure and business plan. Many participants expressed a strong preference for the new CWB to be producer-owned and/or controlled. Several participants noted the desirability of better accountability mechanisms.

The majority felt the Board should be neither advantaged nor disadvantaged in the marketplace. Opinions were divided on whether the Board would need to acquire assets or whether it could access adequate handling capacity by forming alliances and/or contracting with country elevator companies and terminal operators. Some held that in a marketing choice environment, the CWB should be free to buy and sell all western grains and oilseeds.

The CWB was seen as having many assets, including the skills and experience of its staff and its reputation as a reliable supplier of high quality grain, which will serve it well in making the transition to a marketing choice environment. By adapting and building on its existing base, and with strong Government direction, it was felt that the Canadian Wheat Board could successfully compete with large international grain companies. The following box lists the key elements that emerged from participant discussion on how a marketing choice option would impact on the Corporate Structure of a new CWB.

Key elements of corporate structure

- Must operate as a commercial entity.
- Have equal opportunity relative to other entities that market grain.
- Minimal legislation, no regulatory role, no ongoing access to public funds.
- Freedom to buy and sell all western grains and oilseeds.
- Preferably farmer-owned and controlled, accountable through elected Board of Directors.
- Given pre-determined end point, CWB should be free to choose business focus (e.g. offshore markets) and what services to offer.
- Structure to follow from business direction.

Necessary Financial and Marketing Instruments

Most participants indicated that few, if any, new instruments or special measures would be required to meet the financial and marketing needs resulting from a shift to voluntary wheat and barley marketing. Price discovery and risk management tools will be needed for wheat, durum, and export and malting barley. This implies a need for farmer awareness and effort to manage new risks; however, it was noted that the majority of western farmers are already making marketing decisions and managing risk for other crops. The Winnipeg Commodity Exchange has already developed futures and options contracts for wheat and durum and has amended the western barley contract to make it effective in a dual market. AAFC is supporting the Western Barley Growers Association in developing a cash commodity clearinghouse approach to protect producers from buyer defaults. Areas cited as possibly requiring transition planning included: improving price discovery for malt barley; additional rail shipper protection, and transfer of export licensing - if needed during a transition period - to another federal agency.

Regarding CWB capital requirements, a few participants suggested the Government would need to backstop potential CWB losses for an initial period, transfer the value of current guarantees, or provide

other start-up capital. Many others expected the new CWB to meet its financial requirements through borrowings or foresaw the Board raising capital through share equity. Most participants felt the transition to a dual market should not require/merit significant new expenditures of public funds. Moreover, these participants were adamant that, after transition, there should be no public funding for the CWB.

Most indicated changes would likely be required in how and by whom cash advance payments are administered and how funding is provided for the Western Grain Research Foundation (WGRF), the Canadian Malting Barley Technical Centre (CMBTC) and the Canadian International Grains Institute (CIGI). The majority supported continuation of these research and promotion initiatives, possibly through a mandatory or voluntary producer check-off, combined with processor contributions and government support. A suggestion to create a Canadian Wheat Council to represent and promote the interests of all sectors of the western Canadian wheat industry garnered support from several other participants. It was suggested that it be organized along the lines of the Canola Council of Canada or the successful Danish pork industry alliance and draw on parts of the existing CWB to gather market intelligence, conduct product and market research and promote the Canadian wheat "brand" abroad.

The main points extracted from the discussion on the need for additional financial and marketing instruments are presented in the following box.

Key components for financing, research and marketing

- Adequate tolls exist or are being developed to meet producer and CWB needs for risk management and price discovery.
- CWB may require limited start-up assistance.
- Longer-term CWB capital requirements should come from share equity, retained earnings and conventional borrowings, with no special access to public funds.
- Alternate means are needed to deliver cash advance payments to producers and to support WGRF, CMBTC and CIGI.

Implementation Steps

Participants stressed that clarity, resolve and timeliness were of the essence in implementing marketing choice. Most encouraged the Government to set out end points and a specific time-frame for making the necessary changes and to move forward quickly without getting bogged down in the details. Many felt significant steps could be taken immediately for barley and that it was desirable to provide full marketing choice to both wheat and barley producers for the 2007-2008 crop year. A smaller number saw marketing choice being phased in over two or three years.

There was consensus that the Canadian Wheat Board should be brought into the planning process as soon as possible. There was also general agreement on the need for a small producer-industry-government steering committee or task force to develop a specific change scenario and to work out solutions to anticipated problems.

While the majority wanted to see prompt action, some argued that a producer plebiscite was a necessary first step. There was strong support for the Government to clearly lay out what marketing choice would mean to producers and other industry players, as well as the broad strokes of how it would be implemented. Having a "paper" to explain what is being proposed would allow the Government to consult farmers and other stakeholders on how marketing choice can best be implemented and to focus discussion on transition issues.

The following box illustrates the implementation steps which emerged as the favoured approach among most participants.

Key implementation steps

- Engage CWB in process as soon as possible.
- Set up a task force to identify the ongoing and transitional issues that need to be addressed prior to implementing marketing choice and to propose how to address these issues.
- Communicate clearly what marketing choice will mean for producers and other grain industry stakeholders.
- Set target for full implementation of marketing choice, preferable beginning of 2007-08 crop year.
- Introduce legislative changes as soon as possible.
- Take interim actions, where possible, e.g.:
 - Proceed with marketing choice for barley;
 - Instruct CWB to issue export licenses at no cost.

Taken together, the results of the Policy Roundtable constitute possible parameters for a Marketing Choice Option that could be elaborated as the basis for discussion with the CWB and other producer and industry stakeholders. The core elements of such a proposal are summarized in the next box.

Emerging vision of a marketing choice option

- Principles for new CWB:
 - Viable, voluntary choice for producers
 - Commercial entity with no advantage or disadvantage
 - No regulatory role
- Structure:
 - CWB to develop own business focus, services and structure
 - Preferable farmer-owned and controlled
 - Accountable to shareholders/members through elected board
- Financing:
 - Sufficiently financed to have opportunity to succeed
 - Primarily through private capital formation rather than public funds
- Research/Marketing:
 - Risk management and price discovery tools exist or are being created
 - Need to find ways to continue advance payments, research and promotion
- Implementation:
 - Create task force
 - Set out time-frame, ideally 2007-08 crop year
 - Introduce necessary legislative changes
 - Take earlier action where possible

Government Concluding Comments and Next Steps

Agriculture and Agri-Food Minister Chuck Strahl thanked participants for their input. He reiterated that the Government is committed to moving forward on its campaign promise to give western wheat and barley producers a choice about whether to market their products through the Canadian Wheat Board. "Today's

meeting provided an occasion to outline and discuss options for a successful approach, one that provides greater freedom of choice for farmers, delivers greater returns and preserves a strong Wheat Board," Minister Strahl said.

Both Mr. Anderson and Mr. Strahl expressed appreciation for the many suggestions received to date from western Canadian farmers, stakeholder organizations and others who support marketing choice. "This was a preliminary meeting that provided information to be used in future discussions with western Canadian grain producers. We will review the presentations, advice and comments heard today so that we can determine how best to proceed," said Mr. Strahl, who is also the Minister responsible for the Canadian Wheat Board. "Canada's new government will develop a road map for the transition to a new marketing environment while maintaining a strong and profitable Wheat Board that benefits western Canada's farm families. We will continue to move towards our objective in a deliberate and transparent way."