2006-07 Fixed Price Contract – Wheat

FPC – Wheat

What is it?

The Fixed Price Contract (FPC) is a pricing alternative that allows you to flat price your wheat. The fixed price consists of the basis plus the daily December futures value from the relative wheat markets of Minneapolis, Chicago and Kansas. You can sign up for a fixed price for wheat on any working day from February 27, 2006 to November 1, 2006 at 7:30 a.m. Central Time. The FPC is a payment option for deliveries applied to your 2006-07 CWB delivery contracts.

What alternatives does it provide?

The FPC values are market based, allowing you to manage price risk as an alternative to the risk management provided by the CWB pool accounts. The FPC may provide opportunities for higher or lower returns than the CWB pool accounts, depending on market returns throughout the crop year. With the FPC you receive full payment from the CWB within 10 business days of delivery. The FPC can be incorporated into your marketing portfolio to manage returns on your wheat.

You can commit to an FPC over the phone with your **Producer Identification Number** (ID) and **Personal Identification Number** (PIN)

Prices and forms

CWB Web site	www.cwb.ca, '***Farmer contracts and payments***'
Fax on Demand	**1-800-275-4292 (telephone menu option #3)**
Telephone	**1-800-275-4292**
Contact	**CWB Farm Business Representatives**
Visit	**CWB handling agents/grain companies**

How does it work?

When you sign an FPC, you choose the price that you will receive for your wheat. Upon settlement, you receive the fixed price payment in two parts. You immediately receive the initial payment for the grade you deliver at the elevator. Within 10 business days of receiving the settlement information, the CWB sends you an additional payment for the remainder of the FPC value.

Upon entering into an FPC you:

- must commit a minimum of 20 tonnes;
- can select the force majeure clause prior to May 1, 2006;
- must sign a 2006-07 CWB delivery contract for delivery and settlement;
- advise the elevator agent that the delivery is to be applied for payment under your FPC;
- must ensure 100 per cent application of your deliveries against your FPC;
- receive an incremental payment to compensate for deliveries later in the year;
- do not receive adjustment, interim and final payments from the CWB wheat pool account.

Reference grades

Reference grades are used to post pricing information based on in store Vancouver or St. Lawrence. The reference grade is used as the base grade for your FPC. You will receive a premium or discount between the reference grade and the delivered grade based on the initial payment spreads at the time of delivery.

Wheat class	Reference grade	Futures contract
CWRS	No. 1 CWRS 13.5	Minneapolis Hard Red Spring
CWHWS	No. 1 CWHWS 13.5	Minneapolis Hard Red Spring
CWES	No. 1 CWES	Minneapolis Hard Red Spring
CWRW	No. 1 CWRW	Kansas Hard Red Winter
CPSR	No. 1 CPSR	Kansas Hard Red Winter
CPSW	No. 1 CPSW	Kansas Hard Red Winter
CWSWS	No. 1 CWSWS	Chicago Soft Red Winter

Sign-up

Phone
1-800-275-4292
Fax
1-204-983-8031

Incremental payment

Incremental payment values represent the time value of money and are listed on the daily pricing schedule. The incremental payment rates are established on the sign-up date and you are paid the rate associated with the month in which you deliver. The incremental payment reimburses you for deliveries made later in the year. The rates progressively increase each month from August to July.

Example

On May 18, 2006, the fixed price for the reference grade of No. 1 CWRS 13.5 is posted on the pricing schedule at $5.45 Cdn per bushel in store Vancouver or St. Lawrence. John Smith signs an FPC for 10,000 bushels on this date. In August, John's harvested wheat crop yields 40,000 bushels and it grades No. 2 CWRS 12.0 protein. He commits his entire tonnage to a Series A contract in October 2006.

The initial payment for No. 1 CWRS 13.5 is $4.22 per bushel and $3.86 for No. 2 CWRS 12.0. John delivers the 10,000 bushels of wheat in October (after the CWB issues the first 25 per cent delivery call) and advises the elevator agent to apply the deliveries against his FPC. John receives the initial payment net of freight and handling costs for his location ($3.86 - $1.25 = $2.61 per bushel).

Within 10 business days, the CWB issues a payment for $1.24 per bushel, representing the difference between his fixed price, and the initial payment for the reference grade, plus the incremental payment value for October delivery ($5.45 - $4.22 + $0.01 = $1.24 per bushel). By applying No. 2 CWRS 12.0 deliveries against his FPC, John's farmgate price is $3.85 per bushel ($2.61 + $1.24) John receives no further CWB payments on these 10,000 bushels.

The FPC at work on your farm

	John's numbers		Your numbers
	Per bushel	Per tonne	
CWB initial payment for the **grade delivered**	$3.86	$141.83	
Freight and handling deductions at the elevator*	$1.25	$45.93	
Net initial payment	$2.61	$95.90	
FPC value for reference grade	$5.45	$200.25	
CWB initial payment for the **reference grade**	$4.22	$155.06	
Incremental payment	$0.01	$0.37	
CWB additional payment	$1.24	$45.56	
Farmgate price	$3.85	$141.46	

* Estimated deductions. These will vary by location.

Transfer or Buyout

If you wish to transfer or buy out your FPC for wheat, call the CWB at 1-800-275-4292.

1. You can transfer the outstanding tonnes of your contract to another farmer who is willing to assume the terms and conditions of the contract. There is a $15 transaction fee to transfer a contract. This fee is charged to the assignor (original contract holder). The force majeure clause can not be assigned to another producer. Please call the CWB to inquire about transfer opportunities.
2. You can buy out the outstanding tonnes on your contract based on the current market factors. The formula by which the buy out price is calculated is equal to the greater of:

   {(Current futures + current basis + current adjustment factor) – (producer's locked in futures + producer's locked in basis + producer's locked in adjustment factor)}. If negative, equal to zero

   or

   (Current futures – producer's locked in futures). If negative, equal to zero

   plus $15 administration fee

   For further detailed calculations contact the CWB.

Values on the date the buyout is initiated will be used to calculate buyout cost.