

What is it?

The Early Payment Option (EPO) for durum is a pricing alternative that offers increased cash flow after delivery and a floor price for your durum; No. 1, 2 and 3 CWAD. The durum EPO provides greater price certainty, based on an Early Payment Value (EPV) determined as a percentage of the No. 1 CWAD 13.0 Pool Return Outlook (PRO). EPV levels of 80, 90 and 100 per cent are available, each with a discount that represents the cost of CWB risk management, administration and financing earlier payment. The sign-up period is from August 1, 2006 to July 31, 2007.

The durum EPV is gradually withdrawn when CWB initial payments increase, approach or exceed the 80, 90 and 100 per cent EPV levels. The EPV is less valuable as a cash flow tool when initial payments increase.

What alternatives does it provide?

- A tool used for increasing cash flow and managing returns for your durum.
- Provides quick access to cash flow, 10 days after receiving your initial payment.
- Allows you to set a floor price for your durum.
- Returns that are comparable to CWB pool returns, less the cost of the “EPV discount”

Prices, forms & sign-up

CWB Web site	www.cwb.ca	
Fax on Demand	1-800-275-4292	*Menu option 3
Telephone	1-800-275-4292	*PIN required for sign up
Fax	1-204-983-8031	
Contact	CWB Farm Business Representatives	
Visit	CWB handling agents/Grain companies	

How does it work?

At sign up, you select an Early Payment Value (EPV) equal to 80, 90 or 100 per cent of the No. 1 CWAD 13.0 PRO. Upon settlement, you receive the EPV in two parts. Immediately, you receive the initial payment for the grade you delivered to the elevator and within 10 business days of receiving settlement information, the CWB sends you an additional payment for the remainder of the EPV.

Sign-up & pricing

Lock in an EPV and discount (for risk, administration and time value of money) on a minimum of 20 tonnes, by phone or fax.

Delivery

Deliver durum – equal to 100 per cent of your EPO tonnes and at least 90 per cent of the accepted amount of tonnes on your CWB delivery contract.

Provide your six-digit EPO contract number to your elevator agent, who will report it on the initial payment settlement.

Payment

Receive an EPV additional payment, plus incremental payments (to compensate for deliveries later in the year) and adjustment, interim and final payments if they exceed your EPV.

Reference Grade - No.1 CWAD 13.0

The reference grade is used to post pricing information based on in store Vancouver or St. Lawrence PRO values for the EPO program, and is used as the base grade for the pricing contract. You receive a premium or discount between the reference grade and the delivered grade based on the initial payment spreads at the time of delivery. *The reference grade for the Durum EPO is No. 1 CWAD 13.0.*



Delivery guarantee

Producers signing an EPO for durum are guaranteed 60 per cent acceptance of production offered under A and B Series delivery contracts (up to your EPO contract tonnes). The 60 per cent guaranteed acceptance level should be used to determine how many tonnes you commit to a durum EPO.

For example, if you offer 1,000 tonnes of No. 1 CWAD to a Series A delivery contract, you should contract no more than 600 tonnes under a durum EPO. If the CWB's acceptance levels for the A and B Series combined are less than 60 per cent, you will be granted a special delivery provision.

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

Incremental payment

Incremental payment values are listed on the daily pricing schedule and represent your time value of money. The value of this payment is set at the time of contract sign-up and is based on the month of delivery. The incremental payment offsets a portion of the time value of money in the EPV discount. Incremental payment rates progressively increase each month of the crop year.

Example

On January 27, 2007 the CWB publishes the No. 1 CWAD 13.0 PRO at \$5.74 per bushel in store. John Smith has harvested 40,000 bushels of No. 1 CWAD and decides to commit 20,000 bushels to an EPO contract on February 21, 2007, selecting the 90 per cent EPV to generate cash flow when he delivers against the last 50 per cent of A series delivery calls. He locks a 90 per cent EPV at \$5.17 per bushel with a discount of \$0.11 per bushel, giving him a net EPV of \$5.06 per bushel.

John realizes the CWB just issued an adjustment payment, but he requires more cash flow and the Durum EPO still provides significant cash flow. On February 28, 2007, John delivers 20 000 bushels of No. 1 CWAD 14.5. He receives the initial payment net of freight and handling costs for his location (\$4.84 - \$1.28 = \$3.56 per bushel).

Within 10 business days, the CWB issues an additional payment for \$0.70 per bushel, representing the difference between the initial payment for the reference grade (1 CWAD 13.0) and his net EPV.

The initial payment for the reference grade (No. 1 CWAD 13.0) is \$4.37 per bushel and his net EPV is \$5.06 per bushel. John therefore receives an EPO additional payment of \$0.70 per bushel (\$5.06 - \$4.37 + \$0.01 = \$0.70).

The EPO at work on your farm

	John's numbers		Your numbers
	Per bushel	Per tonne	
CWB January PRO	\$5.74	\$211.00	
Early payment value (90 per cent of PRO)	\$5.17	\$189.96	
Less discount	\$0.11	\$ 4.04	
Net EPV price	\$5.06	\$185.92	
CWB initial payment for the grade delivered	\$4.84	\$177.84	
Freight and handling deductions at the elevator*	\$1.28	\$ 47.03	
Net initial payment	\$3.56	\$130.80	
Net EPV price	\$5.06	\$185.92	
Less initial payment for the reference grade	\$4.37	\$160.57	
Plus incremental payment	\$0.01	\$ 0.37	
CWB additional payment	\$0.70	\$ 25.72	
Farmgate price or floor price (net of freight and handling)	\$4.26	\$159.53	

* Estimated deductions. Cost will vary by location.

The farmgate price represents John's net floor price. John will receive future CWB payments if the initial payment for the grade delivered increases above his total gross payments. In this example, he will receive future payments if CWB pool payments for No. 1 CWAD 14.5 increase above \$5.64 per bushel (\$4.84 + \$0.70 + \$0.11 - \$0.01), in store.

Assignment, buyout or transfer

If you cannot fulfill your EPO contract, contact the CWB at 1-800-275-4292 about the following options:

- Assigning the outstanding tonnes of your durum EPO to another producer willing to assume the terms and conditions of the contract. The administration fee for assigning a contract is \$15.00.
- Buying out of the outstanding tonnes on your durum EPO. The buyout rate equals the discount per tonne at time of sign-up, less the time value of money, plus an administration fee of \$15.00.
- You can transfer your durum EPO to either a No. 4 CWAD or No. 5 CWAD EPO contract. This transfer option gives producers flexibility to meet their EPO commitments when their milling quality durum is downgraded. You will receive the EPV for the lower grade of durum that was in effect at the time you locked in your EPV for durum. (The CWB will charge the cost of opportunity to transfer as determined by the current market spread.)



EPO transfer fee formula

{(original discount of the existing EPO - current discount of the existing EPO) + (current discount of the transfer class - original discount of the transfer class)}. If negative, then \$0. Plus applicable roll fee and \$15 per transaction administration fee. The roll fee is \$1.00 per tonne for 100 per cent, \$0.50 per tonne for 90 per cent, and \$0.25 per tonne for 80 per cent EPV transfers.