

CONFIDENTIAL

Continental Barley Market

Summary of Sales and Price Behavior

Updated: October 20, 1993

This paper documents the market events surrounding the Continental Barley Market (CBM) from its June 3, 1993 announcement to present.

I. Background

On June 3, 1993 the Government of Canada announced changes to the system of barley marketing in western Canada to create a "Continental Barley Market" effective August 1, 1993. These changes included; the removal of import permit requirements on U.S. barley and barley products, the removal of the CWB's exclusive jurisdiction over exports of western Canadian feed and malting barley to the United States, and the removal of the CWB's exclusive jurisdiction over sales of western Canadian malting barley to Canadian maltsters. Under the CBM, the CWB retained its monopoly over sales of feed and malting barley to all export destinations other than the United States. The CWB also retained its exclusive jurisdiction over sales of western Canadian malting barley to Canadian maltsters for the subsequent export of processed barley malt to destinations other than the United States. Under the Continental Barley Market, the CWB remained an active participant in the Canadian and U.S. markets for both feed and malting barley, operating in competition with private grain companies and individuals. The changes were made by Order-in-Council P.C. 1993-1399 passed June 21, 1993 amending the Canadian Wheat Board Regulations.

The three Prairie Pools challenged the federal government's actions in the Federal Court of Canada, arguing that the government had exceeded its authority in making this change. The Pools argued that a change of this nature requires an amendment to the Canadian Wheat Board Act and the requisite parliamentary approval. On September 10, 1993 Judge Marshall Rothstein of the Federal Court of Canada ruled in favor of the Pools and declared the changes to the CWB Regulations that created the Continental Barley Market null and void and of no force and effect. The Federal Government subsequently announced its intention to appeal this decision and

requested a Stay of Proceedings pending the hearing of the Appeal. The Stay would have allowed the Continental Barley Market to remain in operation until the hearing of the Appeal. The Stay of Proceedings was denied by the Federal Court on September 17, 1993. The Appeal is scheduled to be heard November 30 - December 1, 1993.

During the 14 weeks between the announcement of the Continental Barley Market and the court ruling (June 3/93 to September 10/93) a large amount of barley was sold to the U.S. by the CWB and the private trade (off-board) for shipment during the 93-94 crop year. A number of public statements have been made comparing the performance of the private trade under the Continental Barley Market to the past and current performance of the CWB. The purpose of this paper is to provide a factual overview of sales volumes and price behavior under the Continental Barley Market.

II. Sales Activity Under the Continental Barley Market

Table 1 summarizes sales of western Canadian feed and malting barley (CWB and off-board) to the U.S. for 93/94 shipment up to September 10/93. Note that the CWB has also sold a considerable amount of barley to the U.S. since September 10/93 (see footnotes to table 1). In addition to the sales volumes shown below, approximately 188,000 tonnes of malting barley was sold to domestic maltsters under the Continental Barley Market. The majority of this (186,000 tonnes) was sold by the CWB.

Table 1
Sales of Western Canadian Barley to the USA for 93/94 Shipment
(up to September 10/93)

	<u>Feed Barley</u>	<u>Malting Barley</u>	<u>Total</u>
	(Metric Tonnes)		
CWB 1/	282,080	311,510	593,590
Off-Board 2/	<u>238,343</u>	<u>205,750</u>	<u>444,093</u>
Total	520,423	517,260	1,037,683

1/ Note that since Sept 10/93, the CWB has sold another 190,000 tonnes (approx) of feed barley and 172,000 tonnes (approx) of malting barley to the U.S. for 93/94 shipment.

2/ Off-Board volumes reflect the tonnage that the CWB has been requested to cover to date. Some off-board business may have been sold and shipped to the U.S. prior to Sept 10/93 which is not picked up in these numbers.

Table 2 provides a comparison of returns on CWB and off-board business to the U.S. during the CBM. Note that the average off-board return is based on the bids received by the CWB from the private trade to cover sales to the U.S. These bids should be a reasonably accurate reflection of the prices received by the private trade during the CBM given that they were meant to be the "break-even" prices required by the companies.

Table 2
Comparison of Returns Under the CBM

	<u>Feed Barley</u>	<u>2 Row Malting Barley</u>	<u>6 Row Malting Barley</u>
(Cdn Dollars Instore Thunder Bay or Vancouver)			
Weighted Average CWB Price 1/	\$95.70	\$144.70	\$125.95
Weighted Average Off-Board Bid 2/	\$84.80	\$134.10	\$116.41

1/ Weighted average price on CWB sales to the U.S. for 93/94 shipment up to Sept 10/93.

2/ Weighted average bid by the private trade to CWB for coverage on sales to the USA made during the CBM.

III. Comparison to 92/93 Sales Volumes

A number of public statements have been made comparing the amount of barley sold to the U.S. during the Continental Barley Market to the volume of barley sold to the U.S. by the CWB during the entire 92/93 crop year. It has been stated that the private trade sold 500,000 tonnes of barley to the U.S. during the 14 weeks from June 3/93 to Sept 10/93, while the CWB sold only 169,000 tonnes of barley to the U.S. last year.

Based on the information that the CWB has received to date, the private trade sold 444,093 tonnes of barley to the U.S. under the CBM, which is close to the 500,000 tonne figure that is being publicly quoted. This is 2.5 times as much barley as the CWB sold to the U.S. during the 92/93 crop year. However, a number of factors should be taken into consideration when comparing these sales volumes.

1. The CWB sold a large volume of barley to the U.S. for 93/94 shipment prior to Sept 10/93 (593,590 tonnes) and has sold another 362,000 tonnes since Sept 10/93.
2. There has been a large price incentive to sell to the U.S. market thus far in the 93/94 crop year that did not exist for most of 92/93. Figure 1 (attached) compares the track Alberta return from sales to Japan, Saudi Arabia and the USA (Yakima Valley) for the 92/93 crop

year and the first 3 months of the 93/94 crop year. Figure 1 illustrates that for most of the 92/93 crop year the CWB was able to achieve a higher net return from offshore markets, such as Saudi Arabia, than from selling to the U.S. (and considerably more from Japan). However, in the latter part of the 92/93 crop year, and thus far in the 93/94 crop year, this situation has reversed itself, with the U.S. market returning a higher net price than Saudi Arabia (or similar offshore markets). This was a result of depressed EC values and higher U.S. EEP subsidies. This explains why CWB sales to the U.S. in 93/94 have increased over 92/93 levels.

3. The above point also illustrates the different manner in which a single desk seller assesses potential sales opportunities versus sellers in a multiple seller environment. Under a multiple seller environment, sales will be made to the U.S. by private companies and individuals as long as the seller can earn a positive margin on the business. In contrast, CWB sales volumes to the U.S. in the past have been based on the return attainable from the U.S. *relative to the returns attainable from other markets.*
4. It is also important to note that the CWB accepted all the feed barley that was offered to it during the 92/93 crop year. Thus there is no merit to the argument that the CWB should have pursued sales to the U.S. more aggressively even though the price would have been lower than potential offshore returns.
5. The CWB's strategic incentives/disincentives associated with selling barley to the U.S. also changed somewhat under the Continental Barley Market. Prior to the CBM, as the sole seller of western Canadian barley to the U.S., the CWB could control the total volume of sales to the U.S. and sell strategically based on the perceived economic (i.e., price) and political sensitivities. Under the CBM, with no control over the total volume of sales to the U.S., the CWB's only criterion for sales to the U.S. was the net price attainable versus offshore markets.
6. Finally, the world supply/demand situation has changed in 93/94, making the U.S. a more important outlet for western Canadian barley. Western Canadian barley production in 93/94 is now estimated at 11.7 million tonnes, up from 9.5 million tonnes last year. Coinciding with this increase in supply is a very weak demand scenario in the offshore market. The two largest importers, Saudi Arabia and the former Soviet Union, which together normally account for more than 50% of world barley imports, are both expected to reduce barley imports considerably in 93/94 (see figure 3). The FSU has not purchased

barley from any of the major exporters thus far in the 93/94 crop year. These factors will contribute to a higher volume of CWB barley sales to the U.S. this year.

For reference, CWB sales of feed and malting barley to the U.S. from 87/88 to 92/93 are summarized below in table 3.

Table 3
Summary of CWB Barley Shipments to the United States

	<u>87/88</u>	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>
	(Metric Tonnes)					
Malting Barley	37,000	150,000	188,000	340,000	282,000	81,000
Feed Barley	241,000	63,000	26,000	49,000	191,000	88,000
Total	278,000	213,000	214,000	389,000	473,000	169,000

IV. Price Behavior

Attached are a number of graphs and tables summarizing the behavior of various prices in the period surrounding the CBM. It should be noted that the change in marketing structure to the CBM (and subsequent reversal) is only one of many factors influencing the price behavior during this period.

Table 4 provides a comparison of PNW barley prices to PNW corn and Gulf corn. The spread between PNW barley and Gulf corn is illustrated in figure 2. It should be noted that the drop in PNW barley prices has a direct effect on the price received on sales of feed barley to Japan as this business is priced directly off PNW feed barley values. Figure 4 shows Western barley futures from February 4/93 to present.

Domestic malting barley prices in Canada fell considerably during the Continental Barley Market. Prior to the CBM, the CWB's price for 6 row malting barley to the domestic maltsters was roughly Cdn \$159/tonne (instore Thunder Bay). During the CBM, the off-board bids to producers for 6 row malting barley ranged from Cdn \$107 to \$115/tonne on an instore Thunder Bay equivalent basis. Currently (i.e., post-CBM), the CWB's domestic price for 6 row is about Cdn \$152/tonne (instore Thunder Bay). A similar price drop occurred with 2 row malting barley during the CBM.

Table 4.
United States: Corn and Barley Weekly Average FOB Quotes *

Week Ending 1/	CORN		BARLEY FOB PNW	Barley Spread to Corn	
	FOB Gulf	FOB PNW		Gulf	PNW
	US \$/ Tonne				
07-May-93	100.24	112.21	114.82	14.58	2.61
14-May-93	99.81	111.07	111.42	11.61	0.35
21-May-93	99.09	109.92	108.05	8.96	-1.87
28-May-93	99.47	109.12	108.85	9.38	-0.27
04-Jun-93	96.17	107.82	108.85	12.68	1.03
11-Jun-93	95.34	108.26	106.65	11.31	-1.61
18-Jun-93	92.51	103.78	106.10	13.59	2.32
25-Jun-93	94.10	106.10	101.96	7.86	-4.14
02-Jul-93	99.42	110.25	101.28	1.86	-8.97
09-Jul-93	104.85	115.48	101.05	-3.80	-14.43
16-Jul-93	103.29	113.45	100.87	-2.42	-12.58
23-Jul-93	108.08	118.16	100.13	-7.95	-18.03
30-Jul-93	105.34	119.83	101.05	-4.29	-18.78
06-Aug-93	106.63	118.24	100.13	-6.50	-18.11
13-Aug-93	106.00	118.18	100.13	-5.87	-18.05
20-Aug-93	105.07	117.43	101.05	-4.02	-16.38
27-Aug-93	103.43	116.82	101.05	-2.38	-15.77
03-Sep-93	100.36	112.56	100.31	-0.05	-12.25
10-Sep-93	99.03	111.14	100.13	1.10	-11.01
17-Sep-93	102.07	113.40	100.13	-1.94	-13.27
24-Sep-93	106.00	116.55	100.13	-5.87	-16.42
01-Oct-93	103.26	115.55	100.13	-3.13	-15.42

* next to nearby month delivery
1/ weekly average for week ending

Figure 1 - Barley Sales Market Alternatives

Basis Track Southern Alberta - August 1992 to October 6, 1993

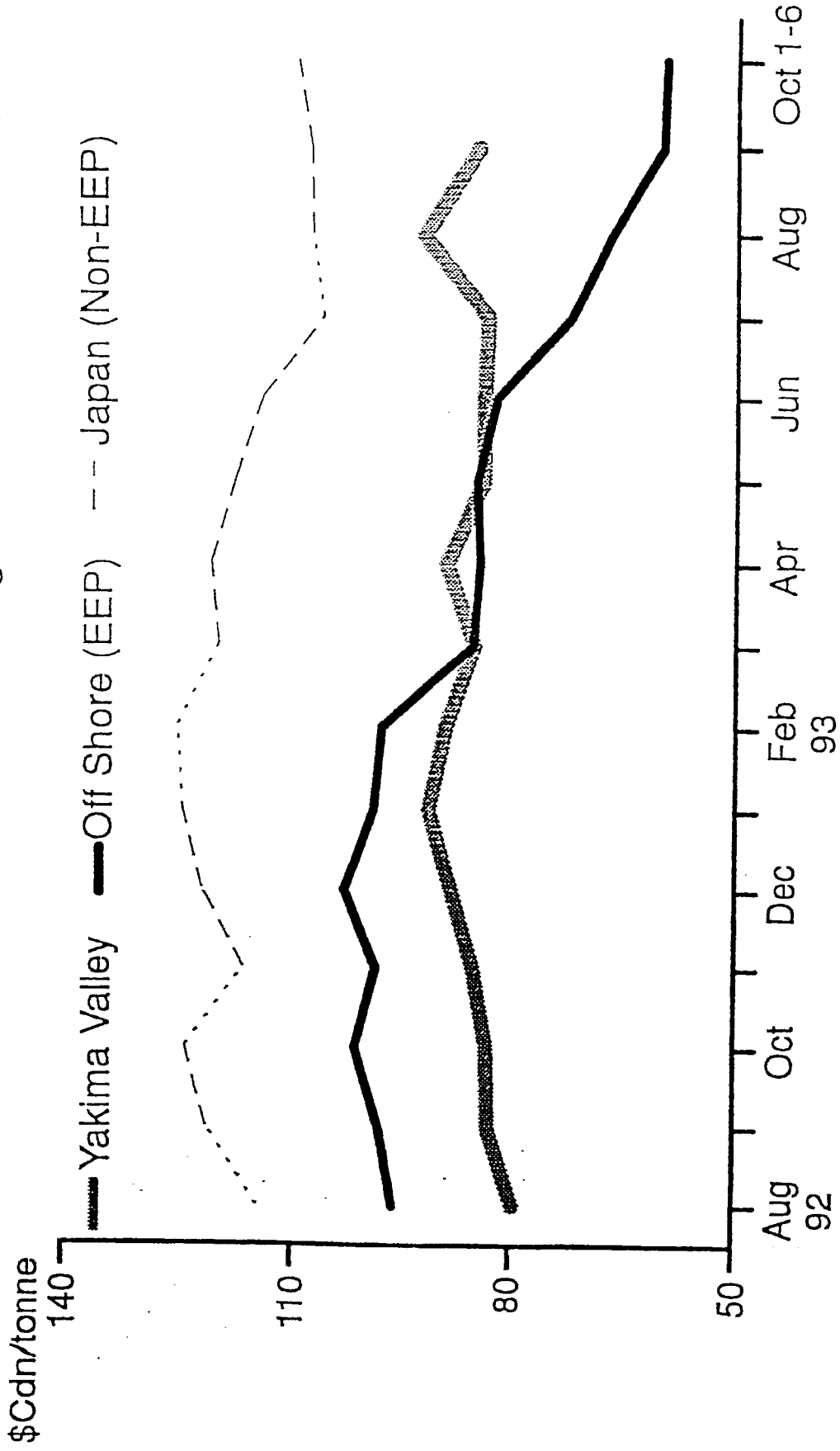
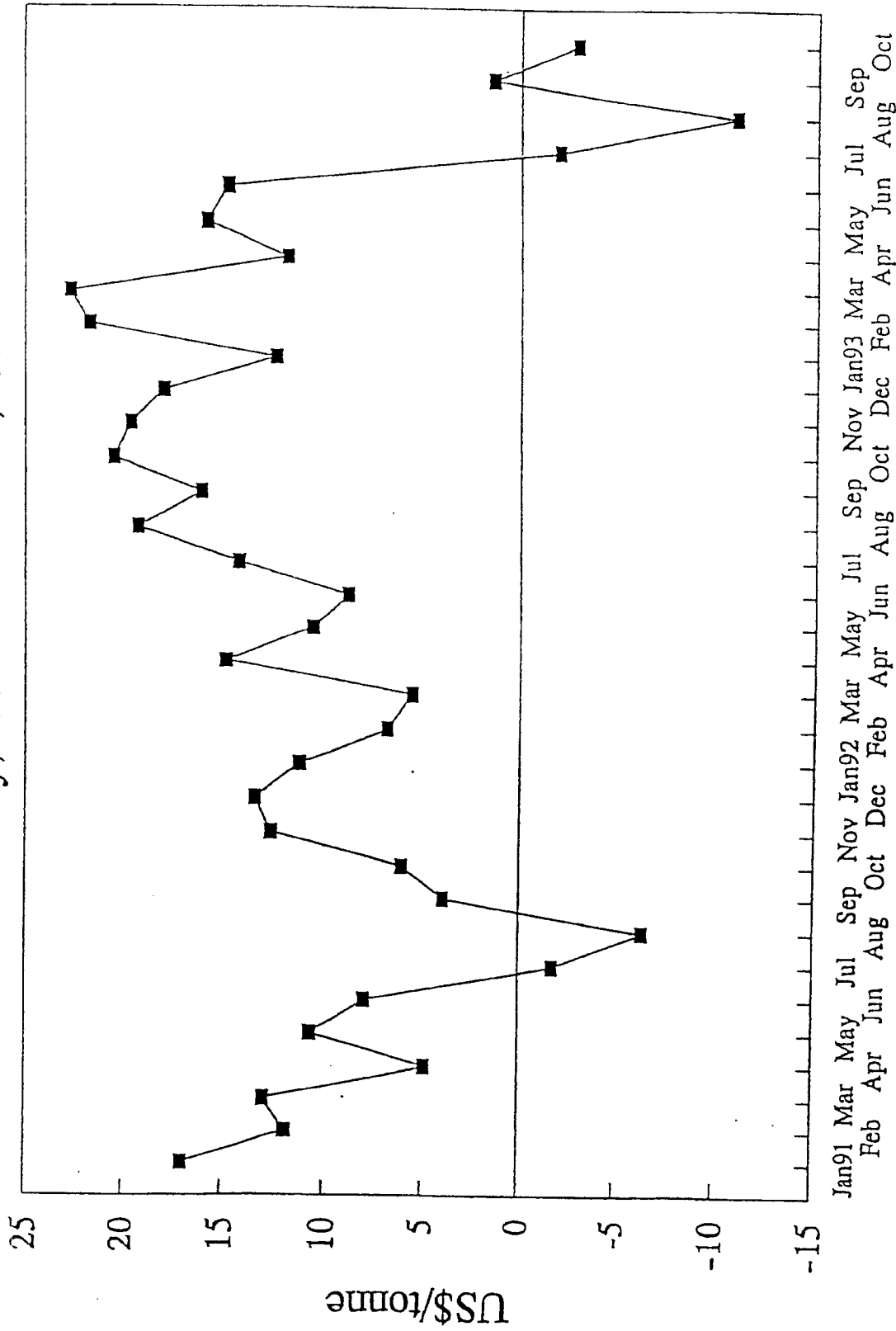


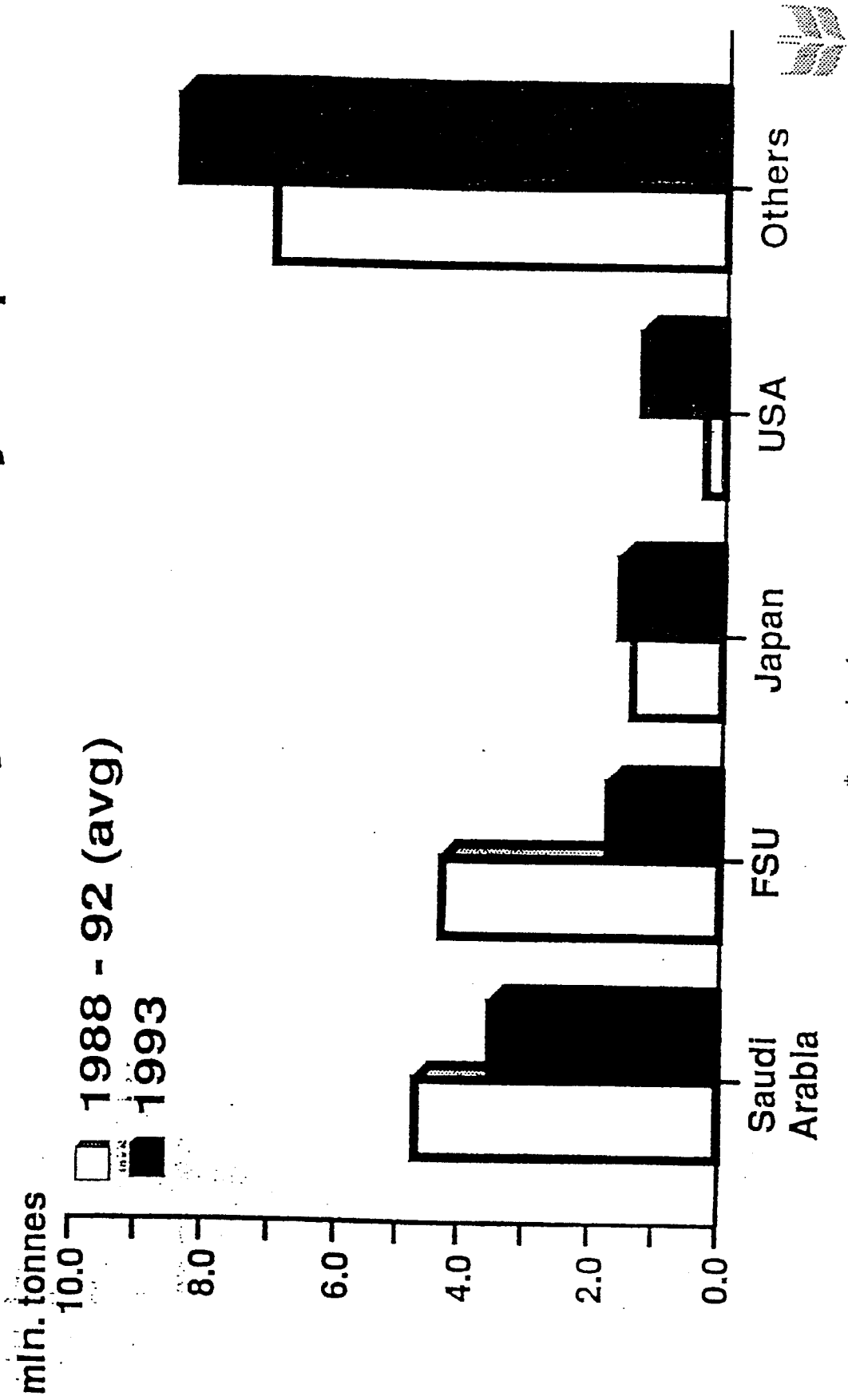
Figure 2 - Monthly Price Spread Between PNW Barley and Gulf Corn
January, 1991 to October 6, 1993



PNW Barley Minus Gulf Corn

Prices 0098L

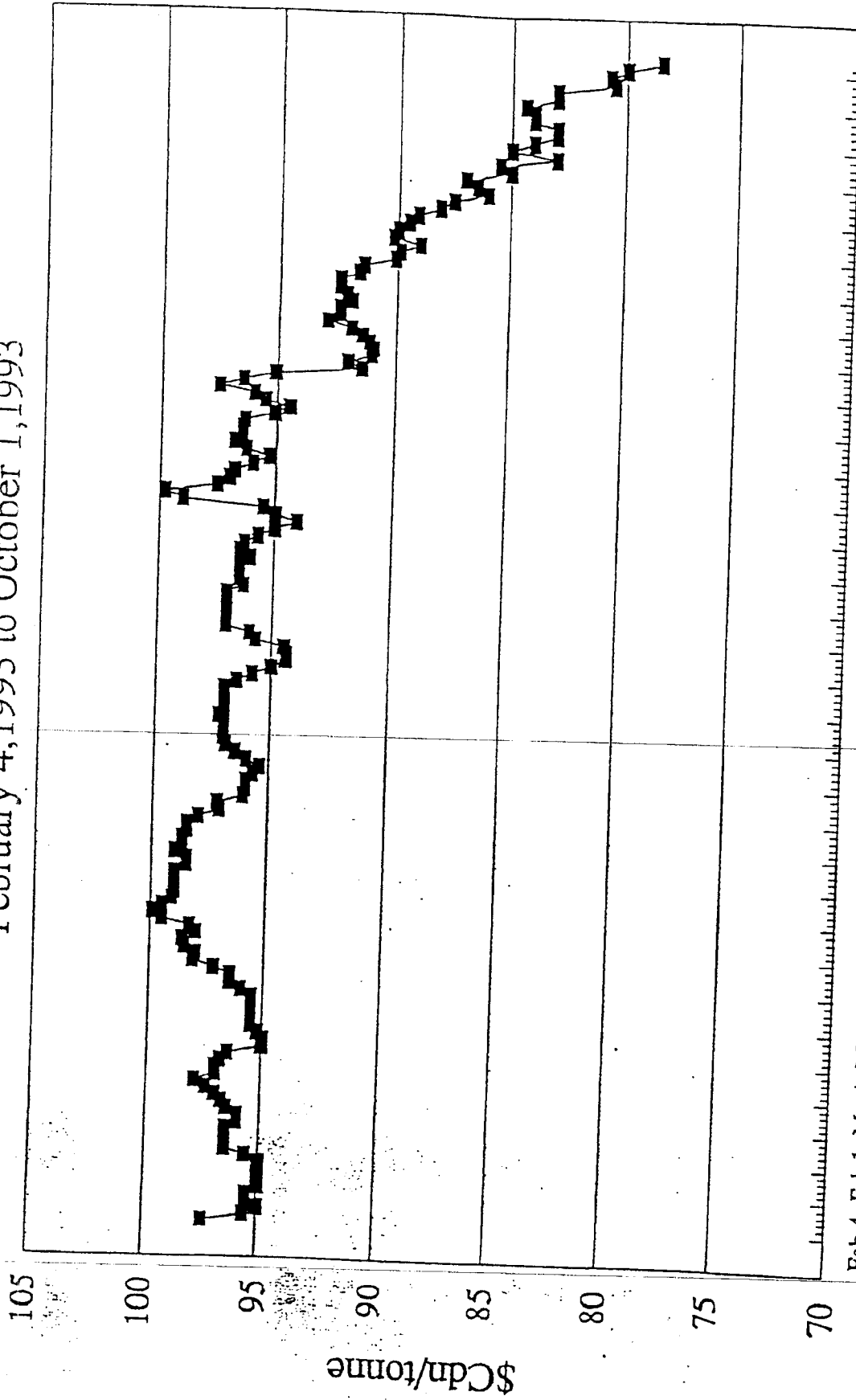
Figure 3: Major Barley Importers*



* excludes malt

Figure 4 - Western Feed Barley Futures

February 4, 1993 to October 1, 1993



Feb 4 Feb 1 Mar 4 Mar 1 Apr 1 Apr 16 Apr 30 May 1 May 3 Jun 14 Jun 28 Jul 13 Jul 27 Aug 1 Aug 2 Aug 4 Aug 16 Aug 20 Aug 27 Aug 31 Sep 1 Sep 9 Sep 23 Sep 30