Malt Barley: CWB Costs and Returns

Alberta Farmers & Malt Barley

April 2006

Frequently Asked Questions:

Question 1: *"Why do I have to pay the CWB freight rate to Vancouver from an Alberta delivery point when my malt barley is going to a domestic malster right here in Alberta?*

Answer: The simple answer is that all Alberta malt barley payments are based at Vancouver. The payments all farmers receive are simply their share of the malt barley pricing pool, which is based out of Vancouver. The farmer receives a payment based off the Vancouver price, even when their malt barley does not go there. The value of malt barley on the prairies is less than the price at Vancouver, by the amount of the freight costs.

The deductions are based off published, negotiable rates and are not determined by the CWB. Maximum cleaning and handling charges are published by the CGC but less can be charged. The rail companies set the Vancouver freight rate, the maltsters and grain companies set the cleaning rate, and the primary elevator or the maltster sets the handling rate. Not all maltsters charge elevation. The CWB makes the full initial payment to the agent who takes off the deductions and pays the farmer. *(See Table 1 on page 3 for a breakdown of deductions made by the agent).*

Note: Payments are not prices and do not directly reflect the value paid by the maltster. An example of a Maltster's purchase breakdown is provided in Table 2.

Question 2: *If the agent is always collecting that freight rate from me, and not actually shipping my malt barley to port, is that not an overcharge?*

Answer: Sometimes there is an overcharge. However the CWB collects this back from the agent and returns it to the pool (not to you individually). This is represented in the Statement of Pool Operations in the CWB Annual Report as a portion of "Other Income" (*Table 3 on page 4*). The total amount of Other Income has ranged from $19.78 to $30.66 over the past four years. There are other recoveries from CWB agents for charges not incurred, but the freight deduction makes up the most significant part of it. The agent makes these deductions in anticipation of paying out to service providers even though the malt barley may not move to Vancouver.

Question 3: *A truck came to my farm to pick up my malt barley, and took it straight to the maltster. Why am I still getting charged an elevation fee?*

Answer: There are system costs charged to the producer for their grains going through the books of an agent. This is something that the farmer has to negotiate with whoever is charging the elevation. Some of these fees may also be recovered by the CWB.

Question 4: *Why is there more freight, handling and storage taken out of the pool account, over and above what I've already had deducted at the elevator?*

Answer: Elevator freight charges that you typically see on your cheque from the elevator are for shipping to port position. Depending on the nature of the sale, there are sometimes additional freight charges for rail, laker movements (Thunder Bay), ocean freight, container movement etc. One example would be a sale to the US. The CWB, not the elevator agent, would pay the freight. This

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freight cost is listed as a direct cost in the Statement of Pool Accounts (*Table 3*), and the CWB will reclaim the freight-to-port cost from the agent and return it to the pool (*A portion of Other Income, Table 3*).

Note: These are pool adjustments and not a reflection of malt barley value on individual sales. This would show up in the basis calculation/price of malt barley in an open market.

Question 5: *What would change for malt barley in a Marketing Choice environment?*

Answer: Maltsters would be able to deal directly with producers at prices that reflect the true value to an individual customer. Maltsters would also be able to secure supply and capitalize on using economic incentives and contracts.

Farmers with a comparative advantage due to lower freight costs, better yield or quality capabilities etc. would be able to capture that advantage without it being "pooled out", and they would be able to take advantage of the incentives offered to them by processors.

Increased value added investment and growth would be a more viable possibility as processing capacity on the prairies would likely increase[1]. If this value added growth did occur, average freight costs for malt barley could go down, as more processing would take place on the prairies. More "value-added" malt (product) would be exported instead of shipping the malt barley (commodity), thus leaving more money on the prairies. Under good management, the CWB would continue to provide producers with a competitive alternative to selling directly to processors, in Canada or elsewhere.

There is additional information available on page 8 of the Feb/March 2006 edition of the CWB's "Grain Matters", available on the CWB's website: www.cwb.ca

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[1]Sparks Companies Inc. "The Canadian Barley Industry in Transition." April 2004. Available through the Choice Matters website: http://www.choicematters.gov.ab.ca/

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Table 1

Example: Calculations for a Producer Malt Barley Cheque in "Average" Alberta

Elevator Cheque August 4, 2004 (2004-05 Crop Year)

	Per Tonne	Per Bushel	
$/MT - initial payment, Vcr.	**$ 128.00**	$ 2.79	2004-05 Initial Payment (August 4, 2004)
Deductions			
Elevation	$ (16.25)	$ (0.35)	Average of majority handlers.
Weiging and Inspection	$ (0.40)	$ (0.01)	
Cleaning	$ (8.15)	$ (0.18)	
CWB Freight to Vcr.	$ (29.54)	$ (0.64)	Weighted average AB-Vcr. freight
	$ (54.34)	**$ (1.18)**	
Additional Fees			
AB Barley Commission	$ (0.50)	$ (0.01)	
Malt Selection Fee	$ (0.89)	$ (0.02)	
	$ (1.39)	**$ (0.03)**	
Net Deductions/Fees	**$ (55.73)**	**$ (1.21)**	
Net Initial Payment	**$ 72.27**	**$ 1.57**	

(Net Producer Returns)

Total Payments (CWB Announcements)			
August 4, 2004	$ 128.00	$ 2.79	Initial Payment
February 15, 2005	$ 21.00	$ 0.46	Adjusted Payment
May 18, 2005	$ 13.00	$ 0.28	Adjusted Payment
November 28, 2005	$ 12.95	$ 0.28	Final Payment
Total Gross Payment	**$ 174.95**	**$ 3.81**	
Less Deductions	$ (55.73)	$ (1.21)	
Total Net Payment	**$ 119.22**	**$ 2.60**	

*Vcr = Vancouver

Table 2

Example of a Maltster's Purchase Breakdown (May 2006)

		($/tonne)	
CWB purchase price		$ 194.00	Posted in-store Vancouver
Less:	Freight to Vancouver	$ (30.00)	Freight to Vancouver
	Cleaning	$ (8.15)	
	Weighing and Inspection	$ (0.40)	
Net Due CWB		**$ 155.45**	
Plus:	Weighing and Inspection	$ 0.40	
	Inbound Freight	$ 12.00	
Cost of Barley		$ 167.85	
Farmer's Expected Return			
May 2006 PRO		$ 170.00	
Backed-off to Alberta		**$ 117.05**	

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Table 3					
CWB Designated ("Malt") Barley - Statement of the Pool Account					
Crop/Pool Year	**2001-02**	**2002-03**	**2003-04**	**2004-05**	
Receipts (tonnes)	2,205,058	891,433	2,138,365	1,752,501	
Total Revenue (in 000's)	$ 433,288	$ 195,848	$ 408,950	$ 310,711	
Revenue per Tonne	**$ 196.50**	**$ 219.70**	**$ 191.24**	**$ 177.30**	
Direct Costs /Tonne					
Freight	$ 2.05	$ 0.12	$ 4.44	$ 7.85	Other than rail to Vancouver.
Terminal Handling	$ 0.11	$ (0.01)	$ 0.45	$ 2.93	
Inventory Storage	$ 2.76	$ 4.39	$ 2.90	$ 2.89	Paid to individual farmers.
Country Inventory Financing	$ 0.78	$ 1.09	$ 0.42	$ 0.39	
Inventory Adjustments	$ 0.37	$ 0.17	$ 0.97	$ 0.11	Grade/quality error/changes
Other Grain Purchases	$ (0.07)	$ 2.38	$ 0.02	$ 1.40	
Other Direct Expenses	$ 0.98	$ 2.68	$ 0.28	$ (0.48)	Cancelled contracts, fees etc.
Total Direct Costs	**$ 6.98**	**$ 10.82**	**$ 9.48**	**$ 15.09**	
Net Rev. from Ops.	**$ 189.52**	**$ 208.88**	**$ 181.76**	**$ 162.21**	
Other income	$ 19.78	$ 30.66	$ 22.25	$ 20.02	
Net interest earnings	$ 0.92	$ 1.52	$ 0.84	$ 1.05	On credit sales, accounts receivable.
Administration Expenses	$ (2.67)	$ (4.03)	$ (3.67)	$ (3.57)	
Grain Industry Organizations	$ (0.13)	$ (0.25)	$ (0.13)	$ (0.13)	Membership fees etc.
Earnings for Distribution	**$ 207.42**	**$ 236.78**	**$ 201.05**	**$ 179.58**	
Breakdown of Earnings Distributed to Producers ($/tonne)					
Year	**2001-02**	**2002-03**	**2003-04**	**2004-05**	
Receipts (tonnes)	2,205,058	891,433	2,138,365	1,752,501	
Initial Payment	$ 181.57	$ 189.60	$ 153.22	$ 140.18	
Adjusted Payment	$ 11.13	$ 9.14	$ 21.90	$ 20.52	
Interim Payment	$ -	$ 21.55	$ 6.81	$ -	
Final Payment	$ 8.85	$ 12.49	$ 11.65	$ 13.40	
Storage Payments	$ 5.87	$ 4.00	$ 7.47	$ 5.48	
Rebate on Prod. Cars	$ -	$ -	$ -	$ -	
Total	**$ 207.42**	**$ 236.78**	**$ 201.05**	**$ 179.58**	
Source: CWB Annual Reports					

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