# Contractual obligations

## Terms and conditions

The DPC is a legal contract and producers who commit grain are bound by the requirements contained in the terms and conditions. Definitions, sign-up methods, obligations, pricing information and provisions of the contract are described in the terms and conditions. Terms and conditions are available on the CWB Web site and through Fax on demand. They can also be obtained by calling the CWB.

### Delivery requirement

A key requirement of the DPC terms and conditions is that producers deliver 100 per cent of the tonnage committed to the contract. Also, it is important to remember that the DPC does not have associated delivery terms. Producers are obligated to sign a CWB delivery contract and wait for contract calls so that they can designate deliveries to the pricing contract of their choice.

## Changing contract commitments

The DPC program offers two options for reducing contract commitments if producers are unable to meet them. Producers may assign or buy out all or part of their contract. If a producer chooses not to exercise either of these options and there is shortfall tonnage on the contract, pricing damages will be assessed.

### Assignments

If a producer wants to reduce their DPC obligations, they may transfer all or part of their tonnage commitment to one or more producers. The producer must complete an assignment form, available only by contacting the CWB, specifying the contract number and tonnage to be transferred. The CWB will provide the details of the contract and terms and conditions along with the assignment form. It is the assignor's (producer transferring the contract) responsibility to ensure the assignee (producer taking over the contract) receives the contract details and terms and conditions. The form must be signed by both producers and returned to the CWB by fax or mail. A $15 administration fee is charged for each assignment.

### Buyouts

Producers can initiate a buyout at any time after making the initial commitment. Prior to August 1, 2007, the CWB will release producers from their contractual commitments for a $15 per transaction administration fee.

After July 31, buyout costs are determined by market conditions. Producers should watch the market before initiating the buyout to ensure the lowest cost. The Fixed Price Contract (FPC) is used to calculate the buyout cost in order to determine the arbitrage between the spot U.S. cash basis and the CWB pooled basis.

Producers may call the CWB with their ID and PIN numbers to receive a buyout quote based on current market conditions. The daily pricing schedule posted on the CWB Web site can also be used to make buyout decisions. After the FPC sign-up deadline, the CWB posts buyout information separately on the Web site. However, these prices are posted for information proposes only. The producer must call the CWB in order to execute the buyout transaction to ensure the cost has been accurately calculated.

If the DPC has been priced, the buyout formula is the greater of:

**Current FPC – producer's DPC OR Current futures – producer's futures. If negative, then zero.**

If the DPC is unpriced, the buyout formula is:

**Current FPC – current DPC. If negative, then zero.**

A $15 administration fee is also charged for buyouts. If the producer's contracted futures month has expired, contract values must be adjusted to the current nearby futures month for the buyout calculation.

## Pricing Damages

Pricing damages are charged if a producer fails to apply all deliveries to a DPC by the end of the crop year and are based on July 31 market values. The calculation for pricing damages is the same as for buyouts.

The purpose of charging pricing damages is to recover all market losses (basis and futures) the CWB incurs on defaulted contracts. Because the CWB holds the risk associated with these contracts, the CWB does not pay out basis or futures gains to producers who default on their contract if it is a higher value than the CWB's posted price on July 31.