

The following statements are excerpts of a paper written by Barry Cooper, University of Calgary, and appear on the AAFC Web site in relation to the upcoming barley plebiscite:

The CWB should not have any role in marketing barley.

Context

The CWB, like the Canadian income tax, was introduced as a temporary wartime measure. After 1945, the monopoly was extended in order to assist the UK. ¹*Unlike other postwar assistance, the grain producers alone, not the taxpayers of Canada (acting through their government), paid for it.* Until 1967, the CWB mandate was renewed every five years, meaning that in principle it was still a temporary organ of the state. After 1967 it became a permanent fixture, immune even from perfunctory Parliamentary oversight. Since that time ²*it has received no public performance review at all. Among existing government agencies, only CSIS is similarly sheltered from scrutiny. Secrecy breeds both suspicion and a culture of unaccountability.*

The arguments in favour of removing the CWB from marketing barley are either ethical and political, or they are economic.

Ethics and politics

The CWB is the chief regulatory instrument of the wheat and barley industry, ³*one of the most heavily regulated industries in the country.* It determines many of the conditions under which farmers deal with elevators and terminals; it decides how and when farmers are paid and when they receive a "call" to deliver their grain. ⁴*For growers of regulated grains in the designated area, the CWB is the most important determinant of their cash flow.* It handles three quarters of the wheat produced on the prairies and about a third of the barley. Measured by sales receipts, which fluctuate around \$6 billion, the CWB is perennially among the top half dozen Canadian businesses. Moreover, the current powers and operations are essentially

CWB comments

The CWB believes it is important to respond to inaccuracies contained in the voting package analysis provided to farmers for the barley plebiscite. The following is a point-by-point fact-based response.

1. The Canadian government assisted its allies during the 1945-46 crop year, when concurrent crop disasters in Canada, Europe and North Africa threatened post-war famine, and the stability of allied nations rebuilding from the war. Both the U.S. and Canadian governments intervened to assist wartime allies with aggressive programs that depleted stocks in both countries by the end of the 1945-46 crop year. The federal government, not the CWB, capped wheat prices at \$1.55 per bushel through an Order-in-Council on Sept. 19, 1945.

2. The federal Auditor General audited and reported positively on the CWB in 2002. Audited CWB annual reports contain many times over the volume of information presented by other, major grain marketing entities. The CWB's 15 board members, including the 10 elected by farmers, have access to and regularly review commercially sensitive information on CWB operations, including individual CWB sales. The considerable volume of public information regarding the CWB is vigorously debated during director elections.

3. Practitioners in the airline, health care, energy, telecom, railway, and similar sectors may disagree that the "wheat and barley industry" is among the most heavily regulated. In agriculture, dairy, poultry, and products under other agricultural marketing boards are also regulated.

4. Producer Pricing Options (PPOs) are an important tool in enabling farmers to better manage their cash flow. The range of options includes a Basis, Fixed and Daily Price Contract, and an Early Payment Option. Participation in these programs has grown substantially and now numbers in the millions of tonnes.

those of the Board established under the War Measures Act.

Uniqueness

The CWB is an anomaly in the agricultural industry: it deeply affects the lives of grain producers, but ⁵*grain producers cannot directly affect the Board*. It is a marketing board, but unlike other marketing boards and despite farmer representatives on the Board, *it is not run by producers*. It did not originate with a vote by producers; producers have never been able to approve or disapprove of regulations and are excluded from Board decisions.

‘It claims to maximize returns to producers (on its website, for example) but the CWB Act is silent about maximizing returns and the courts have determined the Board has no "duty of care" regarding the interests of producers. It has a legal responsibility to buy and sell wheat and barley but no financial interest in the grain it purchases; it is never at risk. It has no bottom line because only farmers-participants in regulated pool accounts are financially exposed or are beneficiaries depending on how the market and the Board perform. All CWB capital is tied up in office equipment and hopper cars. There is no direct financial accountability to the people who are compelled to use its services, no matter how well or how poorly they are served.

5. In 1998 farmers participated in a historic vote to elect 10 of their peers to the CWB’s board of directors. This happened as a result of amendments to *The Canadian Wheat Board Act* that were designed to put control of the organization firmly in the hands of farmers. For years now, farmers have held the controlling interest at the board table. In terms of accountability, farmers can – and have – expressed their opinions at the ballot box. They are free to ‘un-elect’ their farmer directors in response to poor performance just as any other Canadian can in municipal, provincial and federal elections.

6. Maximizing returns to producers is a goal that the CWB’s farmer-elected board formally adopted as one of its earliest acts upon assuming control of the organization on December 31, 1998. The court case cited in the Cooper analysis was decided before amendments were made to *the Canadian Wheat Board Act* in 1998. More relevant is a 2004 decision from the WTO that expressly recognized that the current (farmer-controlled) governance structure drives the CWB to maximize returns to producers.

Since 1998 the CWB’s board of directors have undertaken a number of actions and changes that are directly in the interests of farmers. These include:

- Creation of the PPOs (Basis Price Contract, Fixed Price Contract, Early Payment Option, Daily Price Contract, Guaranteed Delivery Contract)
- Advocating against premature release of GM wheat (prior to market acceptance or a feasible way to keep separate)
- Support of producer cars
- Strong focus on market development and branding of western Canadian products in order to maximize returns for western Canadian farmers.

⁷Western farmers alone in Canada must sell to the CWB at Board prices and then buy back their own grain at Board prices if they want to use it for their own purposes.

⁸Farmers outside the designated area are under no such restrictions. Prairie farmers growing "off-Board" crops are under no such restrictions. The political and ethical bottom line is: this is neither fair nor just. It violates the principle of equality "before and under" the law.

Economics

⁹The great problem with CWB studies of the alleged benefits of the single-desk system is that they are not evidence-based. The CWB claim to produce economic benefits is based on internal studies using data no external analyst has seen. Nor do they compare farmgate returns in Canada to those in the US.

External analysts, moreover, have produced quite different appraisals. ¹⁰***Starting with the 1996 study of Colin Carter and Al Loyns, indirect evidence showed no price premium but rather considerable net costs for both wheat- and barley-growers.***

7. The CWB's Producer Direct Sales (PDS) system protects the integrity of the single desk and pooling while allowing farmers who find and develop niche markets to cash in on those opportunities.

8. Growers of wheat outside the designated area are under the same "restrictions", in the sense that the marketing system is chosen by a majority of farmers. In both Ontario and Quebec, farmers have had the right to choose their marketing systems. In a 2005 province-wide producer vote, Quebec farmers established a single desk for Quebec-grown wheat destined for human consumption. The Fédération des producteurs de cultures commerciales du Québec (FPCCQ) is now in its second year of operation. And it was through a producer vote that Ontario decided in 2003 to move away from a single desk for wheat to an open market.

9. The 2001 wheat benchmarking results were audited by an external firm that had access to the CWB's commercial sales data. Other studies have been conducted by serious, reputable academics whose peers have reviewed their work. In no instance have those peers ever contended that the authors deliberately misused or rigged CWB sales data.

10. The 1996 Carter and Loyns study did not use CWB sales data in its tests for price premiums. Authors who have used CWB data have consistently shown evidence of CWB market power. The Carter and Loyns work was heavily criticized by academics who noted that many of the system costs cited would occur with or without the CWB.

There is no question that the studies outlining the significant value of the single desk have the edge on analytical strength as well as access to the key data necessary to reach reasonable assessments of the value of the system. This fact was borne out in the Charter Case in which Justice Muldoon, after hearing all the evidence from academics on both sides of the issue, clearly concluded that the salutary benefits of the system clearly outweigh any deleterious effects. It was in this case that Dr. Colin Carter admitted under oath that he had continued to present papers about the CWB even after being made aware that data he used to support his conclusions was inaccurate.

¹¹*The removal of oats from the single-desk system in 1989 resulted in higher farmgate returns, lower marketing costs, and value-added processing industries to serve the continental horse feed market. As predicted, deregulation has improved market performance.*

The 1993 Continental barley market

On 1 August, 1993, the Mulroney government deregulated prairie barley. On the 25 October, there was a turnover in the House of Commons of nearly 70 percent and the Chrétien government allowed the open continental market to close. ¹²*Carter and Loyns showed that during a 40-day window somewhere between a half-million and a million metric tons were sold compared to the previous maximum of 0.47 million metric tons over a year (and the CWB was an active participant in those large-volume sales).*

¹³*Both the private Sparks' Companies barley study and one undertaken by the independent agri-food think tank, the George Morris Centre, indicated that "unimpeded" marketing would render substantial value-added opportunities for prairie producers and significantly reduce marketing and administrative costs.*

¹⁴*Simply with respect to prices, any farmer with access to the internet can see the difference between spot-prices and CWB prices.*

Conclusion

The downside risks associated with the abolition of the CWB are enormously outweighed by the upside opportunities. Competitive markets can do for the prairie barley industry what they have done wherever they have been allowed to operate: provide enhanced economic returns and sustain political liberty.

Barry Cooper, FRSC
Professor, Political Science

11. The success oats have enjoyed is attributable to many other causes than the type of marketing system in place to market the crop. The 1988 Canada U.S. Trade Agreement eliminated U.S. tariffs on oat products of \$18 per tonne. U.S. farm program support for oats vs. other crops dropped off sharply in the last half of the 1980s, cutting U.S. oat acreage by much more than half. The factors also coincided with an approximate doubling of consumer demand in response to the then-current oat bran trend.

12. The "continental barley market" had an undeniable impact on barley prices. Before the change, the CWB price for six-row malting barley to domestic maltsters was approximately \$159 per tonne. During the operation of the continental barley market, off-board bids to farmers for that same six-row malting barley ranged from \$107 to \$115 per tonne. After the single desk was reinstated on September 1st, 1993, the price for this grain rebounded to \$152 a tonne by mid-October of 1993.

13. Canada's malt capacity has approximately doubled over the last two decades, while in the U.S. it has recently declined. The Sparks report used as evidence malting plants recently located in the U.S. in Great Falls and Idaho Falls, but failed to note that these were attracted to the U.S. by generous government incentives and distinct freight advantages to their target markets in the southwestern U.S. and Mexico.

14. Spot prices by their very nature will be higher than the overall pooled price which is an average of the high and low prices grain has been sold for over the course of the crop year.

University of Calgary