

What is it?

The Early Payment Option (EPO) for No. 4 CWAD is a pricing alternative that offers increased cash flow following delivery and a floor price for your feed grade durum. The EPO provides an Early Payment Value (EPV) that is determined as a percentage of the reference grade Pool Return Outlook (PRO). At sign-up, you select an EPV level of 80, 90 or 100 per cent, each with a corresponding discount. The discount represents the cost of CWB risk management, administration and time value of money. Upon settlement, you receive the initial payment. An additional payment for the balance of the contract price will be issued by the CWB within 10 business days. You also remain eligible for future adjustment, interim and final payments if the initial price for No. 4 CWAD rises above the EPV. The sign-up period is from August 1, 2007 to July 31, 2008.

When CWB initial payments approach or exceed an EPV, the EPO becomes less valuable as a cash flow tool and the CWB will withdraw the EPV level.

Reference Grade

Reference grades, based on in store Vancouver or St. Lawrence values, are used as the base grade for the pricing contract. The reference grade for this EPO is No. 4 CWAD.

Delivery requirements

Once you have committed tonnage to the program you are obligated to:

1. sign a 2007-2008 CWB Series A delivery contract (if available) or Guaranteed Delivery Contract (GDC), if you do not already have one, in order to deliver against your EPO; and
2. deliver 100 per cent of the tonnage committed to your EPO.

Minimum delivery guarantee

The CWB offers a minimum delivery guarantee for the No. 4 CWAD EPO because durum acceptance levels can be less than 100 per cent. The delivery guarantee is intended to provide farmers a guideline for determining the amount of tonnes to commit to the EPO program. For 2007-08, the guarantee is 80 per cent of production offered under Series A.

For example, if you offer 1 000 tonnes of No. 4 CWAD to a Series A delivery contract, you should contract no more than 800 tonnes under a durum EPO. If the CWB's acceptance levels for the A and B series combined are less than 80 per cent, you will be granted a special delivery provision.

The CWB may offer GDCs for specific quantities of durum during the crop year to meet customer demand. Because GDCs offer 100 per cent acceptance, the minimum delivery guarantee does not apply

Payment

When you deliver your grain to the elevator, advise the elevator agent that the delivery is to be applied for payment under your EPO.

You will receive your EPO payment in two parts:

- The initial payment for the reference grade.
- The CWB additional payment representing the remainder of your contract price calculated as:
Net EPV (EPV – discount) – reference grade initial payment + incremental payment value*

Prices, forms and sign-up

CWB Web site

www.cwb.ca, under
'Producer Payment Options'

Fax on Demand

1-800-275-4292 (telephone menu option 3)

Telephone

1-800-275-4292

Contact

CWB Farm Business Representatives

Visit

CWB handling agents/grain companies

Example

On January 27, the PRO for the reference grade No. 4 CWAD is \$3.67 per bushel in store Vancouver or St. Lawrence. Bob commits to an EPO contract, selecting the 90 per cent EPV of \$3.30 per bushel with a discount of \$0.09 per bushel, for a net EPV of \$3.21 per bushel. Bob delivers No. 4 CWAD on February 5 and advises the elevator agent to apply the deliveries against his EPO. The initial payment for No. 4 CWAD is \$2.61. Bob receives the initial payment net of freight and handling costs for his location of \$1.33 per bushel (\$2.61 - \$1.28).

Within 10 business days, the CWB issues a payment of \$0.61 per bushel representing the difference between his net EPV and the initial payment for the reference grade, plus the incremental payment value for the February delivery (\$3.21 - \$2.61 + \$0.01).

Bob's farmgate price works out to \$1.94 per bushel (\$1.33 + \$0.61) for the No. 4 CWAD. Bob will receive future CWB payments if the initial payment for No. 4 CWAD increases above his EPV of \$3.30 per bushel.



Incremental payment values represent the producer's time value of money for deliveries made later in the crop year. Incremental payment rates are established on the sign-up date and are listed on the daily pricing schedule. The rates increase progressively each month from August to July and you are paid the rate associated with the month in which delivery takes place.

The EPO at work on your farm

| | Bob's numbers | | Your numbers |
|---|---------------|-----------|--------------|
| | Per bushel | Per tonne | |
| CWB January PRO | \$3.67 | \$135.00 | |
| EPV (90 per cent of PRO) | \$3.30 | \$121.26 | |
| Less discount | \$0.09 | \$ 3.31 | |
| Net EPV price | \$3.21 | \$117.95 | |
| CWB initial payment for the reference grade | \$2.61 | \$ 95.90 | |
| Less freight and handling deductions at the elevator* | \$1.28 | \$ 47.03 | |
| Net initial payment | \$1.33 | \$ 48.87 | |
| Net EPV price | \$3.21 | \$117.95 | |
| Less CWB initial payment for the reference grade | \$2.61 | \$ 95.90 | |
| Plus incremental payment | \$0.01 | \$ 0.37 | |
| CWB additional payment | \$0.61 | \$ 22.42 | |
| Farmgate price or floor price | \$1.94 | \$ 71.29 | |

* Estimated deductions. These will vary by location.

Changing contract commitments

The EPO offers several options for reducing contract commitments if you are unable to fulfill 100 per cent of your tonnage commitment.

1. You can assign the outstanding tonnes of your EPO to another producer who is willing to assume the terms and conditions of the contract.
2. You can buy out the outstanding tonnes on your contract.
3. In the event of a misgrade, you can transfer your No. 4 CWAD EPO to a No. 5 CWAD or a durum EPO contract.

To change your contract commitment, call the CWB at 1-800-275-4292.