Contractual obligations

Terms and conditions

The BPC and FPC are legal contracts and producers who commit grain are bound by the obligations listed in the terms and conditions. Definitions, sign-up methods, obligations, pricing information and provisions of the contract are described in the terms and conditions. Before making a commitment, producers should be familiar with these obligations. Terms and conditions are available on the CWB Web site under “Farmers-Producer Payment Options” and through Fax on Demand. They can also be obtained by calling the CWB.

Delivery requirement

A key requirement of the BPC and FPC 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 BPC and FPC do 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 BPC and FPC programs offer several options for reducing contract commitments if producers are unable to meet them. Producers may assign or buy out all or part of their contract. For barley, there is a quality transfer clause that allows switching between feed and selected barley contracts. A $15 administration fee per transaction is charged for each of these options. The force majeure clause provides an avenue for producers to reduce or eliminate damages for non-performance related to crop loss. There is a $3 per tonne charge for this option. If a producer chooses not to exercise any of these options and there is shortfall tonnage on the contract, pricing damages will be assessed.

Assignments

If a producer wants to reduce their BPC or FPC 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. The form must be signed by both the assignor (producer transferring the contract) and assignee (producer taking over the contract) and returned to the CWB by fax or mail. The force majeure clause of a contract cannot be assigned.

Buyouts

Producers can initiate a buyout at any time after making the initial commitment. Market conditions determine the buyout cost, so producers should watch the market before initiating the buyout to ensure the lowest cost.

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 using the formulas below. After the program sign-up deadline, the CWB posts buyout information separately on the Web site under “Farmers-Producer Payment Options”. However, these prices are posted for information purposes only. The producer must call the CWB in order to execute the buyout transaction to ensure the cost has been accurately calculated.

BPC and FPC buyout calculation

The greater of:

(Current basis + current futures + current adjustment factor) – (producer’s basis + producer’s futures + producer’s adjustment factor)

Or

Current futures – producer’s futures

Rollover charges, if any, are added to the buyout cost. For the purpose of calculating durum buyouts, Minneapolis Hard Red Spring wheat futures are used.

Only certain components of the formula apply depending on the producer's pricing commitments. For example, if a producer has a BPC without the futures locked in, the futures component of the calculation would not be considered.

If the producer's contracted futures month has expired, contract values must be adjusted to the current nearby futures month for the buyout calculation.

When the producer's contract value is greater then the values posted on the day of the buyout a negative value will result. Negative values are set to zero when assessing buyout costs. The CWB does not pay gains to the producer since the CWB holds the risk associated with these programs. The PPO programs are designed specifically as pricing programs. Producers who wish to speculate on the futures market should contact a brokerage firm.

Example

A producer signed a 20 tonne BPC contract for CWRS wheat on May 26 at a basis value of $24 per tonne. Since the contract was signed prior to August 1, the producer's adjustment factor is $0 per tonne. On May 31, the producer locked in a futures value of $168 per tonne. The producer does not have enough CWRS wheat to fill the contract and contacts the CWB for a buyout quote on December 14.

The December futures month has expired so the buyout calculation is assessed using the current nearby futures month. In this case, it would be the March futures.

Producer's contract value	per tonne December	per tonne March
Basis on May 26	$24	$21
Adjustment factor on May 26	$0	$0
Futures on May 31	$168	$171

Buyout contract value on December 14	December	March
Basis	N/A	$40
Adjustment factor	N/A	-$3
Futures	N/A	$166

The buyout cost was assessed at the greater of:

(Current basis + current futures + current adjustment factor) – (producer's basis + producer's futures + producer's adjustment factor)

= [$40 + $166 + (-$3)] – ($21 + $171 + $0)
= $203 - $192
= $11 per tonne

Or

Current futures – producer's futures

= $166 - $171
= $0 per tonne

In this instance, the producer is assessed a buyout cost of $11 per tonne plus the $15 administration fee. The cost accounts for the basis change less the futures gains plus the arbitrage to the pool account as represented by the adjustment factor.

Barley quality transfers

For 2007-08, the CWB has simplified the barley quality transfer clause for the BPC and FPC. Producers wanting to transfer between a feed and malting barley BPC or FPC will retain the original futures value and receive the basis in effect on the date of the transfer. In the case of a BPC with futures only, the contract will simply be converted and the producer has until the sign-up deadline to lock in the basis. Also on the transfer date, the late sign-up adjustment factor for the new grade will be applied to the contract.

Producers transferring from feed to selected barley would also have to sign a Selected Barley Storage and Delivery Contract (SBSDC) and subsquently have their barley accepted. Those transferring from selected barley to feed would have to sign a Guaranteed Delivery Contract (GDC) for immediate delivery.

For feed barley, this clause is limited to Pool A and it must be invoked on or before January 31, 2008. The quality transfer is not available for feed barley BPC and FPC contracts offered for Pool B since producers will be in a better position to assess the quality of their barley before making a pricing commitment.

Example

A producer signs an FPC for two-row barley on June 2 at a price of $180 per tonne. The futures value is $150 per tonne, basis $30 per tonne, late sign-up adjustment factor ($0 per tonne.) On September 15, the barley is rejected for malting and the producer contacts the CWB to invoke the quality transfer clause and sign a GDC. The feed barley FPC on that date is $118 per tonne. The futures value is $140 per tonne, basis -$25 per tonne, late sign-up adjustment factor $3 per tonne.

Producer's feed barley FPC = original futures + current feed barley basis + current feed barley late sign-up adjustment factor

= $150 + ($-25) + $3

= $128 per tonne

Force majeure clause

The force majeure clause, commonly known as an "Act of God" clause, is designed to protect against production risk. It provides an avenue for producers to reduce or eliminate damages for non-performance that would otherwise be payable if they experience substantial or total crop loss as a result of adverse weather or other event beyond their control. Force majeure can be invoked for production losses only. Quality losses are not covered by this provision. Producers have the option of selecting the force majeure clause when committing to a BPC or FPC until the earlier of May 1, 2007 at 7:30 a.m. CT or until the 200 000 tonne limit is reached. There is a cost of $3 per tonne for this option.

Only 50 per cent of anticipated production of any given type and class of grain is eligible for the force majeure. Producers must deliver against contracts containing force majeure provisions first and in priority to all other deliveries of the same type and class of grain, including the pool. This applies to carryover grain as well as new crop when assessing eligibility to invoke the force majeure clause. If the producer has enough production to fulfill the contract they are not eligible to exercise the clause. They still have the option to buy out or assign the contract.

To invoke the force majeure clause, the production-limiting event must occur after the producer commits to an FPC or BPC to be eligible for coverage. Examples of some events that would be covered by the clause include flood damage, severe drought or significant hail damage.

The clause must be invoked within 15 days of the event by contacting the CWB and completing a statutory declaration. The declaration is subject to verification and additional documentation may be required by the CWB to support the loss of production claim.

Example

On February 26, a producer commits 300 tonnes to a CWRS BPC locking in December futures at $215 per tonne. The producer selects the force majeure provision at sign-up, which reduces the BPC contract value to $212 per tonne ($215 - $3). The BPC commitment represents 30 per cent of the producer's anticipated production.

On April 26, the producer enters into a second CWRS BPC for 100 tonnes locking in futures at $225 per tonne. The force majeure provision is not selected.

On May 12, the producer locks in the basis on both contracts at $20 per tonne.

Severe drought prevailed throughout the growing season, limiting production to 250 tonnes of 4 CWRS. On August 20 the producer calls the CWB to invoke the force majeure clause taken on the first contract.

Because deliveries must be made against contracts containing force majeure provisions first, the entire 250 tonnes harvested can be applied against the February 26 BPC. The CWB releases the producer from his contractual obligations for only 50 tonnes.

Tonnes eligible for force majeure = contract tonnes with force majeure option – tonnes available for delivery

= 300 - 250
= 50

The producer must assess buyout and assignment options on the remaining100 tonnes contracted. Had the force majeure option been taken on the April 26 contract, the producer would not have been responsible for contract damages on those tonnes.

Pricing damages

Pricing damages are charged if a producer fails to apply all deliveries to a BPC or FPC by the end of the crop year. Pricing damages are based on market values on July 31, except for Pool A feed barley, which are assessed using market values on January 31. The calculation for pricing damages is the same as for buyouts (see pages 14-15).

The purpose of charging pricing damages is to recover all market losses (basis and futures) the CWB incurs on defaulted contracts. The CWB holds the risk associated with the prices offered through these programs therefore 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.