CWB

2007-08 Basis Payment Contract – wheat

BPC - wheat

What is it?

*The basis includes a discount for risk, time value of money and administration costs.

The Basis Payment Contract (BPC) for wheat is a pricing option that offers producers the opportunity to fix a basis against the relevant futures market from February 26, 2007 to October 31, 2007. The futures must be priced by the futures month expiry date. The CWB Pool Return Outlook (PRO) is used to establish the basis*. Either the basis or the futures can be locked in first and the other at a later date. A late sign-up adjustment factor is applied at contract sign-up beginning August 1. The BPC is a pricing commitment requiring 100 per cent application of deliveries. Since the BPC provides forward pricing opportunities before harvest, a 2007-08 CWB Series A, B, or C delivery contract or a Guaranteed Delivery Contract (GDC) is required once you confirm your production.

How does it work?

The BPC provides you with a value outside the pool account that you can incorporate into your farm management practices for price risk, budgeting, fixing margins, planning seeding and improving cash flow. On delivery, you receive the initial payment for the actual grade delivered. An additional payment will be issued by the CWB within 10 business days if the BPC is fully priced. Additional payments on BPCs that are not fully priced are not issued until the full contract value (basis and futures) is priced. Producers who choose a BPC are not eligible for adjustment, interim or final payments from the pool account.

Reference grade

Reference grades are used to post pricing information based on in store Vancouver or St. Lawrence. The reference grade is used as the base grade for your BPC. You will receive a premium or discount between the reference grade and the delivered grade based on the initial payment spreads at the time of delivery. Reference grades for wheat are as follows:

Wheat class	Reference grade	Futures contract
CWRS	No. 1 CWRS 13.5%	Minneapolis Hard Red Spring
CWHW	No. 1 CWHW 13.5%	Minneapolis Hard Red Spring
CWES	No. 1 CWES	Minneapolis Hard Red Spring
CWRW	No. 1 CWRW Select 11.5%	Kansas Hard Red Winter
CPSR	No. 1 CPSR	Kansas Hard Red Winter
CPSW	No. 1 CPSW	Kansas Hard Red Winter
CWSWS	No. 1 CWSWS	Chicago Soft Red Winter

Sign-up

You can commit to a wheat BPC by phoning the CWB with your Producer Identification Number (ID) and Personal Identification Number (PIN) or by faxing a sign-up application form. You must indicate:

1. the number of tonnes you want to commit to the wheat BPC (minimum 20 tonnes);
2. the class of wheat; and
3. whether you are locking in a futures or a basis.

Prices, forms and sign-up periods

CWB Web site	www.cwb.ca, 'Farmers - 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

Delivery requirements

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

1. sign a 2007-2008 CWB Series A, B or C delivery contract or a GDC in order to deliver against your BPC; and
2. deliver 100 per cent of the tonnage committed to your BPC.

Payment

When you deliver your grain to the elevator:

1. advise the elevator agent that the delivery is to be applied for payment under your BPC.
2. you will receive your BPC payment in two parts:
   - the initial payment for the actual grade and protein you deliver; and
   - the CWB additional payment representing the remainder of your contract price calculated as: BPC contract price – reference grade initial payment + incremental payment value*.

* Incremental payment values reimburse you for the time value of money portion of the discount for deliveries made later in the 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.

Example

On May 18, the March basis for the reference grade of No. 1 CWRS 13.5 per cent protein is posted on the pricing schedule at $0.60 Cdn per bushel in store Vancouver or St. Lawrence. John signs the basis portion of a BPC on this date.

John delivers No. 2 CWRS 12.0 per cent protein on October 10 and advises the elevator agent to apply the deliveries against his BPC. The initial payment for No. 1 CWRS 13.5 per cent protein is $4.22 per bushel and $3.86 per bushel for No. 2 CWRS 12.0 per cent protein. John receives the initial payment net of freight and handling costs for his location ($3.86 - $1.25 = $2.61 per bushel). In December, John prices the March futures component of the BPC at $4.85 per tonne, effectively locking in a overall contract value of $5.45 per bushel ($0.60 + $4.85), based on the reference grade.

Within 10 business days, the CWB issues a payment representing the difference between John's BPC value and the initial payment for the reference grade, plus the incremental payment value for October delivery ($5.45 - $4.22 + $0.01 = $1.24 per bushel)

John's farmgate price works out to $3.85 per bushel ($2.61 + $1.24) for the No. 2 CWRS 12.0 per cent protein. John receives no further payments on this wheat.

The BPC at work on your farm

	John's numbers		Your numbers
	Per bushel	Per tonne	
CWB March basis	$0.60	$22.05	
Minneapolis March Hard Red Spring wheat futures	$4.85	$178.21	
Late sign-up adjustment factor	$0	$0	
BPC value	$5.45	$200.26	
CWB initial payment for the grade delivered	$3.86	$141.83	
Freight and handling deductions at the elevator*	$1.25	$45.93	
Net initial payment for grade delivered	$2.61	$95.90	
BPC value	$5.45	$200.26	
CWB initial payment for the reference grade	$4.22	$155.06	
Incremental payment for delivery month	$0.01	$0.37	
CWB additional payment	$1.24	$45.57	
Farmgate price	$3.85	$141.47	

* Estimated deductions. These will vary by location.

Changing contract commitments

The BPC 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 contract to another producer who is willing to assume the terms and conditions of the contract. All assignments are subject to a $15 administration fee per transaction. This fee is charged to the original contract holder (the assignor);
2. You can buy out the outstanding tonnes on your contract based on current market factors. Values posted on the date the buyout is initiated will be used to calculate the buyout cost. All buyouts are subject to a $15 administration fee; and
3. If you chose the force majeure option at sign-up, you can invoke it to reduce pricing damages for non-performance due to extreme events that cause production loss. There is a $3 per tonne cost associated with the force majeure option.

If you want to exercise any of these options, call the CWB at 1-800-275-4292.