

## **Appearance before the House of Commons Standing Committee on Agriculture and Agri-Food**

### **Presentation by Greg Arason, Interim President and CEO of the Canadian Wheat Board**

**March 1, 2007**

Thank you very much, Mr. Chairman.

I would like to thank the Committee for inviting me to speak to you today.

As many of you know, this is my second tour of duty at the helm of the CWB. I took on the challenge of leading the organization at this crucial and controversial time because I thought that I could make a positive contribution to the CWB's operations and marketing efforts. I believe in the CWB. I believe in the important role that it has in maximizing farmer returns. I believe in the CWB as a major, world class supplier of wheat, durum and barley to the global grain trade.

I indicated, at the time of my appointment, that my intention was to stay out of the politics of the single desk. My focus, as interim CEO, was going to be – and has been – to sell grain and to make sure that the organization runs smoothly. I have not strayed from that original commitment nor will I stray from it today.

However, when factual inaccuracies about the CWB's performance find their way into a public forum, I believe it is my right and my duty to correct that information. One example of such an inaccuracy relates to the CWB's business relationship with Algeria and I understand that is the reason I was called here before you today.

A number of parties, including Members of Parliament, have recently stated publicly and in printed material that the CWB has been underselling the market for durum wheat. This information is not factual and appears to have originated from material circulated by the U.S. Wheat Associates, a longstanding critic of the CWB.

CWB directors have access to detailed sales information on a regular basis. Through this process, the directors can assure themselves that the CWB is in fact obtaining fair value in relation to the values available to its international competitors. The mandate of the CWB is to maximize returns to producers and to develop strong and sustainable relationships with its customers around the world. By continually monitoring sales performance, the board of directors can determine whether CWB management is in fact meeting those objectives.

I would like to state unequivocally that sales of durum to Algeria have been made at competitive market prices, which are not discounted or low. Our client in Algeria – the Office Algérien Interprofessionnel des Cereales or OAIC has confirmed that fact, as do regular CWB sales reports reviewed by the board of directors.

There have also been accusations that the CWB is underselling the market compared to what is being achieved by Ontario farmers. It has been suggested that, as of late January, an Ontario farmer selling hard red spring wheat with 13.5 per cent protein would receive \$5.50 per bushel, whereas a grower on the Prairies selling No. 1 CWRS would receive about \$4.40 per bushel as a final pool return—approximately \$1.10 less. The implication is that this suggests poor performance by the CWB. That implication is incorrect because of several errors in the comparison.

To begin with, a spot price (the Ontario price) is being compared to a pool value (the CWB Pool Return Outlook). This is a misleading comparison. A pool value is by definition an average of prices achieved over an entire crop year. In a rising market such as we have experienced so far this crop year, a spot price is always higher than a pooled price. Is the CWB selling wheat at those “high” Ontario values and returning those dollars to farmers? Yes. In fact, CWB values are even higher.

The source of the spot price of \$5.50 per bushel is not indicated but it is undoubtedly a price at or near an Ontario mill. An appropriate comparison would be, therefore, the current price of let’s say Saskatchewan wheat landed at an Ontario mill. On February 5, the CWB offered eastern mills No.1 CWRS with 13.5 per cent protein for \$230.47 per tonne at Thunder Bay. Add to this freight charges of \$25 from Thunder Bay to the mill, and the landed price equals \$255.47 per tonne or \$6.95 per bushel.

The comparison, then, is between \$5.50 per bushel of hard red spring wheat to the Ontario farmer and \$6.95 per bushel of hard red spring wheat to the Saskatchewan farmer. The truth, therefore, is the exact opposite of what has been contended: CWB prices are actually higher.

This \$6.95 per bushel would be added to the pooled payments western farmers receive for wheat sold throughout the 2006-07 crop year. However, if the farmer decided to price his wheat through one of the CWB’s Producer Payment Options, he or she could have locked in prices right around the \$240 per tonne mark – backed off to a Saskatchewan location, this would have translated into returns of approximately \$5.20 per bushel. To make the comparison even more valid, the price available to the Ontario farmer would also have to be backed off for freight, cleaning and elevation charges. Therefore, the posted price of \$5.50 per bushel might, in fact, translate into a farmgate price very similar to what spot prices available through the CWB are, and this, in spite of the huge freight disadvantage that Prairie farmers face, relative to their Ontario counterparts when servicing eastern markets.

Making inaccurate statements about sales values and our relationship with specific customers is damaging to our business and, as a consequence, damaging to western Canadian farmers. This is about business – it is not a political debate. And I believe very strongly – as the CWB’s entire board of directors believes very strongly – that any criticism of the CWB should be based on fact, not on vague innuendo circulated by Canada’s competitors. The marketing of Prairie wheat, durum and barley is a business – and a very competitive one – and at the CWB, we believe that farmers’ financial interests should come first.

It is my hope that, in the future, efforts will be made to verify information of this nature with the CWB prior to its use and dissemination. Whatever political controversy surrounds the CWB’s single desk mandate, it should not prevent the flow of accurate information between the CWB and the federal government.

At this time, I'd like to make a few brief comments on our marketing efforts to date. As you may know, earlier this week, the CWB unveiled its price projections for the upcoming crop year at GrainWorld, a major market outlook conference. While it is still very early, we are forecasting malting barley returns to be over \$30 per tonne higher than current year's prices due to tight supplies and steady demand. High quality durum and milling wheat values are also up over the current year.

Shortly after being appointed to my position, I communicated with farmers that the CWB was ahead of target in marketing wheat and barley. I am pleased to say that is still the case.

However, our ability to deliver on the sales that we have made is in serious jeopardy. I would be remiss if I did not mention to this committee the urgent situation we are facing as a result of the CN strike which compounded earlier movement difficulties on both CN and CP lines. Since farmers are captive to Canada's two major railways, any significant delays on this system often result in farmers paying penalties for delayed loading of ocean vessels. During the strike, farmers are paying a few hundred thousand dollars a day. What we don't see as a line item in our financial report however is the damage that these delays cause to farmers' reputation to be a reliable supplier of the high quality product for which they are so well known.

When the CN strike first occurred, we very quickly urged the government to intervene and impose back-to-work legislation. When we make those urgent requests, we are not crying wolf. Stoppages like what we have just experienced, combined with the ensuing delays that will occur as the system ramps up once more, are untenable for Prairie farmers.

We need government to look seriously at this issue. We must have assurances that rail service can effectively recover from delays when they occur – and that both railways provide adequate service for grain movement on a sustainable basis.

That concludes my comments. Thank you. I would now welcome any questions that the Committee may have.