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Presentation to the Standing Committee on Agriculture and Agri-Food by the Canadian Wheat Board April 18, 2007 Saskatoon, SK

Good afternoon.

My name is Ian McCreary and I farm at Bladworth, about an hour's drive from Saskatoon. I am here today on behalf of the board of directors of the CWB. I have been a farmer-elected director of the CWB since farmers took control of the company in 1999 and I currently serve as the chairman of the board's Farmer Relations committee.

In appearing here today, I am mindful of the October 5, 2006 Directive from Cabinet preventing the CWB from spending funds to advocate retention of its so-called "monopoly" powers. I am also mindful of the Minister's comments that the Directive does not prevent CWB directors from expressing their views on the issue. That is what I am here to do this afternoon.

At the CWB, we like to take a very broad view of business risk management.

Farm income support is certainly a very important component of the business risk management file. As a member of the Canadian Federation of Agriculture, we echo many of CFA's positions on this front. Grain producers need risk management programs that enable them to deal with the extraordinary production risks they face as well as market risks related to price volatility and both tariff and non-tariff barriers. These programs must provide a foundation for growth and stability in the grains sector. They need to be clear, sustainable and predictable.

The CWB, though, is also of the view that there is a structural side to this issue that needs to be highlighted. Grain producers play a fundamental role in the stability and the prosperity of the agricultural sector as a whole. Whether it is in traditional sectors like grain exports, domestic milling or the production of livestock, or in emerging sectors like the bio-fuel industry, plentiful, consistent supplies of grain and oilseeds from Western Canada are keys to the present health and future growth of agriculture in Canada.

Unfortunately, grain producers are also in an environment where they exercise relatively little control over the factors that affect the profitability and therefore the sustainability of their enterprises. On the variable input side, for example, there are a limited number of suppliers who provide them with the seed, chemical, fertilizer and fuel that make up the bulk of their costs. Those suppliers have the power to set prices at whatever the market can bear. Grain marketing costs are no better. Where Prairie grain producers once had access to two or three elevator companies in each small community, they now face huge distances to get to the one terminal that services their entire area. Grades, dockage, trucking premiums and access to the grain-handling system are correspondingly more difficult to negotiate. Grain producers are more often than not captive to one provider of rail transportation – when that provider is unwilling or unable to supply them with the cars they require, they have little recourse as individuals. The existence of only three or four major grain merchants on the international stage means that grain producers here can be played off against those in other nations and that commodities can be sourced wherever they are cheapest. In crops where only a handful of countries buy our export commodities, we can be suddenly left out in the cold by tariff and non-tariff barriers imposed on the whim of government authorities with political agendas.

In summary, the economic or commercial environment in which grain producers find themselves is one that can be best characterized as a power struggle, a power struggle where you have a limited number of very large, powerful entities on one hand and where you have farmers on the other.

This uneven power struggle has a direct bearing on farmers' ability to manage their business risk. When grain producers must bid down the value of their crops to get access to the grain-handling and transportation system, it lowers their returns. When they cannot deliver their crops because of lack of grain movement, it shuts the tap on their cash flow. When the cost of inputs follows prices in a never-ending upward spiral of narrower margins, they face increased risk. When a key customer decides to shut its borders, they face backlogs on the farm.

Anything that can be done to return some measure of balance to this power struggle is a positive step and one that deserves to be supported in a renewed policy framework for agriculture in this country. As a farmer-elected director of the CWB, I would submit to the members of the House of Commons Standing Committee on Agriculture and Agri-Food that the CWB with its current powers as a single seller of wheat and barley is just such a positive force. It gives Prairie farmers a lever with which they can exercise influence over their environment and manage the business risk that they face.

Let me point to a few examples where this has been the case:

1. Through the CWB, farmers stand united in their struggle to obtain good service and reasonable rates from the two mainline rail carriers. Whether it is through level of service complaints or in direct negotiations or in the work that it has done of the rail revenue cap, farmers have the CWB to fight on their behalf for lower costs and better access to the system.
2. The CWB has supported farmers' efforts in their bid to establish and maintain producer car loading facilities as an alternative to the existing grain-handling system. Producer cars have enabled participating farmers to lower their costs and bring an element of competition to environments where they would otherwise be captive to single facilities.
3. The CWB has diversified the markets where farmers can sell their wheat and barley. When a major customer closes its border to our products – for example, when the U.S. slapped its duties on Canadian exports of red spring wheat in 2003 – the Prairie wheat industry does not collapse. In the case of the U.S. trade action, new markets were found while we fought the tariffs and eventually won their removal. Contrast this with the fallout from the BSE crisis and its enduring effect on Canada's beef industry.
4. The CWB's ongoing efforts to brand western Canadian wheat and barley as a consistent, high quality product, backed by a customer service package that is second-to-none, enables Prairie farmers to tie into value chains and get a bigger share of the consumer dollar. When you have a branded product and customers associate value with that brand, you can extract more for that product, even when the prevailing market prices drop and supplies of lower-valued commodities are ample. Branding is ultimately a business risk management strategy: it seeks to develop customer loyalty so that price is no longer the only determining factor when customers decide to make their purchases. At the end of the day, it really turns suppliers who are price takers into price makers. As farmer, I like that idea.

In addition to providing grain producers with the opportunity to exert greater control over their commercial environment, the CWB also provides western Canadian farmers with some unique pricing tools that also help them manage their business risk. It is well known that the CWB pools the sales it makes throughout the year so that farmers get the same price for the same grain, regardless of when it was sold. The advantage of pooling – from a business risk management perspective – is that it ensures that farmers do not end up selling the entirety of their grain crop in low-price markets (for example, right off the combine in the fall). By calculating average returns for the year, all farmers benefit equally from sales into high-value as well as more price competitive markets.

It used to be that pooling was the only way to price grain through the CWB. That has changed dramatically since the farmer-elected directors have come on board. Together with management, we have added a series of Producer Payment Options (or PPOs as we call them) that provide farmers with a wide range of pricing options. They can still pool but they can also price their grain in advance through the Fixed Price Contract, follow the futures and price their grain at a later date through the Basis Payment Contract, price it off American elevator prices through the Daily Price Contract or get their money up-front through the Early Payment Option and still have the opportunity to benefit from future price rallies. These options are significant from a business risk management perspective because they give farmers the ability to customize their wheat and barley pricing according to their own individual needs as farmers. If they need to lock in a price for cash flow purposes or in order to obtain credit, they can. If they need the opportunity to follow the market and pick off market highs, the PPOs enable them to do just that. That having been said, pooling remains the most popular pricing option. It is a simple, cost-effective solution for farmers who do not want to see their wheat or barley sold at rock-bottom values only to have prices rebound as the year wears on while they are left with no crop to sell. Any farmer who has sold flax or canola or oats can relate to how bad that feels and how badly that hurts your financial bottom line.

So if the CWB is delivering these business risk management tools already, what is the board of directors of the CWB coming before the Standing Committee today to ask?

First of all, we are asking the Standing Committee on Agriculture and Agri-Food to provide the legislative support necessary for farmer-run marketing agents to continue to work effectively on farmers' behalf in the area of business risk management. I am not talking more money here. I am not asking for more government programs. What is needed is a commitment from the Committee that marketing agents like the CWB – that re-establish some balance in the marketplace and that provide grain producers with solid price risk management options – must be enabled to continue exercising the powers that really make them effective. Secondly, we are calling on the Committee to clearly establish how, in the absence of its single desk powers, the CWB could continue to effectively provide the farmers of Western Canada with the same kind of business risk management tools that it does today. Thirdly, we would like to know what the Committee will do to ensure the government provides risk management tools to the farmers of Western Canada if it does proceed with its current policy of making the CWB a "voluntary" marketing organization.

Lastly, we ask the Committee to pause and take a look at what the CWB is proposing in its plan for the future that we've called *Harvesting Opportunity*. The board of directors and senior management at the CWB has spent a lot of time developing this plan and it lays out in some detail how the CWB could do more for Prairie grain producers than what it does today. So far, there has been no willingness on the federal government's part to engage in meaningful discussions on this plan. It is my hope that, in the context of trying to do something real to help the farmers of Western Canada better manage their risk, the government may re-visit its position.

Thank you and I will be happy to answer any questions that members of the Committee may have.