

## **CWB Fact sheets**

### **Key points about the CWB**

- The Canadian Wheat Board is the largest wheat and barley marketer in the world. The CWB sells to over 70 countries and returns all sales revenue, minus marketing costs, to Prairie farmers.
- The CWB is a farmer-led organization: Farmers have democratically decided to sell their product through the single desk and the CWB operates with the support of a solid majority of farmers. The CWB's single desk must not be dismantled due to pressure from a vocal minority.
- The future of the CWB is not just about the single desk. It's about leveraging the CWB's clout to provide farmers with more power in the marketplace now and for the future.
- Western Canadian farmers want Ottawa to defend their right to determine their own marketing system. Decisions about the future of the CWB belong in Canada and should not be left to the World Trade Organization, the U.S. or EU, which represent Canada's major competitors.
- The objective of the WTO is to eliminate or reduce trade distortions. The CWB, through the single desk, maximizes returns to farmers and is not trade distorting. This has been repeatedly proven by the Canada's victories in NAFTA and WTO dispute panels. The main sources of trade distorting government policies are the US and EU. Western Canadian farmers should not have to give up their single desk marketing system in order to get other countries to address their trade distorting programs.
- The single desk adds value for farmers. Sacrificing the single desk would mean additional economic hardship for farmers during an almost unprecedented income crisis.
- The CWB has established a Canadian brand for western grain, which allows it to earn premium prices for farmers in some markets. Without the single desk, the Canadian brand would be jeopardized since we would no longer be able to assure customers of a reliable supply and quality of grain.
- A functioning "dual market" is impossible/unworkable, a myth. If the single desk were eliminated there would not be two markets. There would be one market controlled by a handful of multinational grain companies. Farmers would lose their marketing advantage to those corporations whose job is to generate profits for owners and shareholders, not generate price premiums for farmers like the CWB does.

# The Myth of the Dual Market

## Key Points

- The dual market is a myth. There either is or is not a single desk. What proponents of the dual market are actually calling for is an open market. If Canadian farmers choose that model, it is their right, but it is also important that everyone know what is really being debated.
- In an open market single desk selling premiums are gone, as is farmer control of a portion of the industry. End users have several sources to choose from for the same product and grain companies can make money on buying low and selling high and pocketing the difference. Farmers, on the other hand, become captive sellers to a handful of companies that are intent on extracting every dollar they can from the grain marketing system.

## Background

The CWB has held single desk authority to market western Canadian wheat since 1943 and barley since 1949. Independent analysis of the performance of the CWB indicates that the single desk is responsible for hundreds of millions in additional revenue every year.

Further analysis shows that freight rates would likely climb in the absence of the CWB, according to a recent report by University of Saskatchewan agriculture economists Drs. Hartley Furtan and Richard Gray. They estimate freight rates would climb by \$25 to \$30 per tonne.

Many farmers support the CWB and the single desk. Many farmers are neutral to the CWB and single desk, though they are frustrated by chronically low wheat and barley prices and are 'ready to try anything.' A smaller but very vocal group opposes the CWB and the single desk.

Potentially, a large group of farmers supports the CWB, but would like to see it competing in a 'dual market'. For the most part these farmers assume that the CWB buys their grain and that more competition will mean higher prices.

While the terms "voluntary" and "dual market" are becoming widely used, what proponents of changes are really calling for is an open market.

## FAQs:

### **1. If the CWB and many grain companies were competing to buy my grain, wouldn't that mean higher returns for my wheat and barley?**

No- because in a multiple seller environment, sellers are motivated to buy grain as cheaply as possible and to sell it for as much as possible, pocketing the difference. The only way farmers could get more for their wheat and barley in a multiple-seller environment is if end users like millers and maltsters would pay more for grain. Removing the single desk won't make that happen.

End-use customers won't have to pay more in a multiple seller environment. In fact competition will be a good thing for them. When you're buying a product you want as many sellers as possible, so you can shop around for the best value among competing sellers.

Today, buyers can't play sellers off against each other. That's because if, for example, a Japanese miller wants to purchase No. 1 13.5 CWS today there's only one place to call – the CWB. In an open market they'd contact grain companies A, B and C, specify the grain they're looking for, and then compare the offers and select the lowest price. Analysts say moving to an open market system could cost farmers between \$20 and \$30 a tonne as a direct result of the loss of farmers' market power over customers.

### **2. But doesn't Ontario have a dual market?**

No. Ontario has an open market, with one of the many players being the OWPMB. It does not function today as it did when it was a single desk seller.

The other thing that is important to note is that the Ontario Wheat Producers Marketing Board *chose* to give up their single desk. Its board of directors decided to freely provide licenses to farmers to access the domestic and export markets directly. The fact that this decision was made by their board of directors is consistent with the CWB position that only western Canadian farmers should decide what form their marketing system takes.

### **3. Won't an open market be more efficient?**

The CWB currently plays a major coordination role in grain logistics and other aspects of the grain marketing system. Working with other parties such as the railways they attempt to ensure cost effectiveness and service. Without the CWB the rail system would most likely move to a full commercial basis, analysts say. That would most likely mean increases in freight costs of between \$20 and \$30 a tonne, according to University of Saskatchewan agriculture economists Drs. Richard Gray and Hartley Furtan.

Currently grain companies are in the business of receiving, grading, storing and handling wheat and barley in the most efficient way possible. They make all their money on these two crops through these activities.

In an open market they suddenly have another profit opportunity available to them. They can buy your grain at a low price, sell it at a higher price and pocket the difference. There's nothing unethical about doing this -- it's just good business.

The job of any grain company is not to ensure farmer profitability, but to ensure its own profitability. They have shareholders that expect a return on their investment.

The CWB's only shareholders are western Canadian farmers. Therefore the CWB returns all income, less operating expenses, to farmers every year. That means when a sales opportunity at a higher rate does occur, you get the benefit of it.

### **4. If the CWB is so good, why can't it survive competition?**

The CWB has no assets such as grain handling facilities because the legislation that governs the CWB limits its ability to purchase assets. The same legislation also requires and obligates grain companies to provide handling services for board grains.

In an open market, grain companies would not have a legal obligation to provide handling services to the CWB. Since they would be able to sell wheat and barley to customers, and earn money on each sale, they'd actually have an overwhelmingly clear incentive to not co-operate with the CWB. They would be head-to-head competitors with an entity that has no assets, no regulatory power and therefore, no market power. What benefit would such an entity offer farmers?

Without elevators, terminals and other facilities, the CWB would effectively be sidelined from the game. It would be like trying to play hockey without a stick and skates.

## The Ontario experience

### Key Points

- Ontario farmers have the system they do because their farmer-elected board decided to take their organization in this direction. Prairie farmers have a farmer-controlled board of directors for their CWB. They have not taken the same direction, but could do so if they wanted.
- Comparing Ontario and Western Canada is like comparing apples and oranges. Marketing wheat grown in Ontario and Western Canada requires two vastly different approaches. Farmers in Ontario grow about 1.65 million tonnes of mainly soft wheat that's sold to domestic mills for use in cookies, pastries and biscuits. Western Canadian farmers grow about 16.8 million tonnes of mainly hard red spring wheat for bread and the CWB exports it to more than 70 countries.
- The OWPMB now handles an insignificant volume of the wheat grown in Ontario. In 2003-04 it marketed only 18 per cent (about 400 000 tonnes) of the wheat grown in Ontario. Only a third (126 274 tonnes) of that amount was pooled.
- Predictably, in the open market scenario, the OWPMB has had difficulty sourcing grain for some of the sales it has made. In one case, it even had to purchase wheat in order to meet a contract commitment.
- Farmer-direct delivery to mills and markets like the United States has not materialized the way farmers envisioned under Ontario's system. Millers themselves say they see little or no benefit dealing directly with farmers when they can instead source grain through the many merchants and brokers.

### Background

Prior to the 2000 crop year, the Ontario Wheat Producers' Marketing Board (OWPMB) was the sole marketer of wheat grown in Ontario. In this role, it acted on behalf of farmers to negotiate a price for sales of wheat to mills domestically and coordinated the export of a small amount of wheat from Ontario. Beginning in 2000, the farmer-controlled OWPMB board of directors decided to allow certain volumes of wheat to be marketed outside the single-desk (150 000 tonnes in 2000 and 2001; 200 000 tonnes in 2002). In 2003, the OWPMB board of directors decided to remove the cap on exemptions, effectively creating a fully open market. The OWPMB now competes with private traders in an open market for wheat.

### FAQs:

#### ***1. Why shouldn't western Canadian farmers have the same marketing choice as those in Ontario?***

They could if they choose to do so through the democratic structure that is in place. Ontario farmers have the system they do because their farmer-elected board decided to take their organization in this direction. Prairie farmers have a farmer-controlled board of directors for their CWB. They have not taken the same direction, but could do so if they wanted. By their choice of board members it's clear that the vast majority of western Canadian farmers do NOT want to follow the OWPMB.

#### ***2. Don't Ontario farmers get a better price for their wheat than Prairie farmers selling through the CWB?***

The wheat grown in the two regions is very different (soft wheat in Ontario, hard wheat in the west), so you're comparing apples and oranges.

What you're really getting at here is the question of whether Ontario farmers were better off with the single desk. Analysis shows they were getting higher prices in that environment. For example, on August 31, 2004 the cash bid price for soft white wheat was \$146.88 per tonne but under the former mill pricing agreement with the OWMPB, farmers would have received

\$173 per tonne (that spread has been relatively consistent over time). With the single desk, the OWPMB had the clout to negotiate higher prices for farmers' wheat than farmers can now competing against one another in an open market.

***3. Can't you just issue Prairie farmers an export permit the same way they are issued to Ontario farmers?***

The CWB has a system in place that allows western Canadian farmers to sell into any market and extract values in excess of what the CWB is able to achieve in those markets on any given day. This system ensures that the integrity of the pools is not compromised. It's called producer direct sales.

***4. Won't an open market lead to more value-added processing?***

Opening the market in Ontario hasn't led to a boom in value-added processing. In fact, there has been a slight decline in milling capacity since the open market came into effect. The only mill that has closed in Canada in the last 10 years closed in Strathroy, Ontario in November 2003. Investment in value-added is driven by demand-- not the marketing system that's in place.

***5. Why has seeded acreage gone up ever since the single desk was eliminated in Ontario? (Isn't that a signal farmers are better off in an open market?)***

Seeded wheat acreage fluctuates widely from year to year in Ontario and has been gradually trending upwards for 35 years (with and without a single-desk marketing system). A dramatic increase in wheat acreage in 2003, prompted by low corn prices and excellent fall planting conditions, was followed by a decrease to more normal levels in 2004 and 2005.

## Value added

### Key Points

- Market demand is the main factor that drives value added processing. Investors must identify a market for product and fill unmet market demand. Increasing the level of value-added processing in Canada relies on more than simply creating a positive environment for investment in facilities – there must be consumer demand.
- The wheat marketing system in place has nothing to do with the amount of value added processing that takes place. Market demand doesn't fluctuate based on whether grain is sold through a single desk or on the open market.
- Without an increase in demand, value-added processors simply end up fighting for a small slice of the market – but the total market does not get bigger.
- Value-added processing within the wheat and barley industry has shown healthy growth and development since the signing of the Canada-U.S. Free Trade Agreement in 1989.
- The decrease in demand for grain-based products can be directly traced to the popularity of low-carb diets such as Atkins and South Beach. That has, in turn negatively impacted value-added processing.
- Canada processors exported over 950 000 tonnes of value added processed wheat and durum products in 2005. In wheat equivalent that is 1.287 million tonnes. That means roughly 40 per cent of value added wheat products manufactured in Canada are exported for consumption elsewhere.

### FAQs:

#### **1. Won't an open market lead to more value-added processing?**

Well if you use Ontario as an example, the answer is no. In that province there's actually been a slight decline in milling capacity since the open market came into effect. The only mill that has closed in Canada in the last 10 years closed in Strathroy, Ontario in November 2003. Investment in value added is driven by demand- not the marketing system that's in place.

Overall, Canadian wheat and durum milling has increased 32 per cent since 1996. By comparison U.S. milling capacity since 1996 has grown four per cent. Clearly value-added processing is demand-driven. Canadian flour mill capacity has grown from about 8 250 (in 1996) tonnes per day to 10 930 tonnes per day.

#### **2. Won't an open market lead to better malting capacity?**

Domestic malting capacity has also grown over the past 15 years, with annual totals of 1.2 million tonnes, in contrast to U.S. malting capacity, which has declined over the same period.