

**The following statements are excerpts of a paper written by Rolf Penner of the Frontier Centre for Public Policy and appears on the AAFC Web site in relation to the upcoming barley plebiscite:**

Some believe the Canadian Wheat Board (CWB) should remain the sole Canadian buyer of malting and export barley. Others think it shouldn't exist at all. Voting for a policy that includes the CWB as a voluntary marketing option takes the broadest view, and gives producers the greatest flexibility and control over their businesses.

### **Many Benefits to Choice**

*<sup>1</sup>More competition for barley means buyers (including the CWB) will have to keep a lid on costs as they work hard to get you the largest margins possible.*

Growers of malt barley stand to benefit the most from increased flexibility. <sup>2</sup>*A simple review of published prices shows that the CWB pool price for malt barley has been below the North American price for almost ten years.*

### **CWB Comments**

The CWB believes it is important to respond to inaccuracies contained in the voting package analysis provided to farmers for the barley plebiscite. The following is a point-by-point fact-based response.

1. More competition for farmers' grain between handling companies in Western Canada may mean lower system costs, but will certainly mean lower selling prices as merchandisers compete for customers' business.

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 customers are buying your grain they will want as many sellers as possible, so they can shop around for the best value among competing sellers.

Today, buyers can't play that game. That's because if, for example, a Japanese miller wants to purchase No.1 13.5 CWRS today there's only one place to call – the CWB. In an open market the miller would 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 \$10 and \$30 a tonne as a direct result of the loss of farmers' market power over customers.

2. The "North American price" refers to the CWB's own series of prices paid by maltsters for barley used for domestic malt. This is not a correct comparison because there is not a legitimate set of malting barley data that exists showing what farmers would receive in an open market. A 2005 study conducted by Schmitz, Schmitz and Gray simulates the total revenue from barley sales (feed and malt) farmers would have received in an open

## Improved Pricing Signals

Often maltsters look for very specific quality parameters for specific customers. The current system doesn't allow for prices that differentiate according to these specifications. <sup>3</sup>*In an environment of choice, Canadian maltsters will be able to provide appropriate signals directly to producers.* When they need to attract acres, they will be able to do so through price and quality indicators and directly contracting with farmers.

Currently, high prices in the feed market in years of shortage encourage farmers to sell malting barley for feed. <sup>4</sup>*That forces Canadian malt plants to import foreign barley.*

<sup>5</sup>*Recently malt plants have been built or expanded just south of the Canada/U.S. border because maltsters could not source directly from producers here.* Choice would mean no longer forgoing malting premiums in favour of the domestic feed market and thereby leading to increased malting in Canada.

## Higher Returns

<sup>6</sup>*A choice environment for malting barley would provide farmers with an opportunity to capture some of the highest returns in comparison with other crops.* <sup>7</sup>*Canada is ideally suited for barley production, yet we are not maximizing our potential.* An inflexible marketing structure and poor market signals are prime reasons. Greater flexibility would see growth of this high-value crop.

In feed barley, a dual market of sorts already exists. Domestically farmers can sell to whomever they wish, including the CWB. In a market-choice scenario, this would extend to include export

market during the period from 1995-06 through 2003-04 and shows producers received \$59 million more per year than they would have in an open market environment. Meanwhile, the domestic malt is a premium market limited to about 15-20 per cent of the pool only. Therefore, by definition it will be at a premium to the pooled price.

3. Maltsters do originate malting barley with the specifications they require, such as low protein. In fact, a variety of premiums and incentives are offered through both the CWB and from maltsters themselves in order to ensure producers receive appropriate signals and maltsters are able to attract the quality of grain they require.

4. Two Canadian maltsters imported 53 000 tonnes of EU malting barley in 2002-03 because the right quality was not available in Western Canada. The maltsters in question paid exorbitant prices for that barley – in excess of an estimated \$300 per tonne – and for those prices could have their choice of any barley in Western Canada.

5. Canada's malt capacity has approximately doubled over the last two decades, while in the U.S., it has recently declined. Plants recently located in the U.S. (Great Falls and Idaho Falls) were attracted to the U.S. by generous government incentives and distinct freight advantages to their target markets in the southwestern U.S. and Mexico.

6. This is strictly opinion and ignores a large body of work by independent academics that concludes farmers receive higher returns through the CWB. Many of these studies can be found at: [www.kis.usask.ca/CWBLiterature.html](http://www.kis.usask.ca/CWBLiterature.html)

7. Barley has the largest seeded acreage after wheat of all crops on the Prairies, and 70 per cent is sown to malting barley varieties.

buyers. Sometimes foreign markets are willing to pay more than domestic ones. Opening this dynamic to competition will quickly lead to increased opportunities for better margins closer to home.

### **'Voluntary' Works Well**

A voluntary market, it is often argued, would mean the end of the CWB. Yet many examples show this to be untrue. <sup>8</sup>*For instance, post-monopoly, the provincial pork marketing agencies on the Prairies enjoy continued producer support, healthy market shares and positive growth.* Farmers support these organizations because they have worked hard to be competitive and have earned their business.

### **CWB Will Remain Strong**

The positive relationships that the CWB has with end-use customers will allow it to continue as an effective marketer in both international and domestic markets and will continue to be a real choice for producers. <sup>9</sup>*The CWB has a relationship of trust with many growers; these relationships have value and provide solid reasons for farmers to continue working through the CWB.*

In a choice environment, the CWB will be a marketing agent for farmers and not a competitor with the grain companies. The CWB will be expected to exploit its offshore relationships to make sales. <sup>10</sup>*And, supported by many farmers, the CWB will be able to negotiate competitive handling rates and terms with many of the grain companies as they compete to handle this grain.* The CWB will provide farmers a strong negotiating position with these companies.

### **Studies Support Choice**

<sup>11</sup> *Numerous studies from a diverse body of researchers favour choice.* Economists Carter and Loyns found that it "...would raise farm income..." market analysis company Sparks saw "substantial opportunities" if the industry were "Unimpeded".

8. Comparing hogs to barley is worse than comparing apples to oranges. Pork marketing agencies do not need to rely on their competitors' handling facilities to run their business. The CWB would. In a voluntary environment, the CWB could theoretically resurrect itself as a grain company, but like any grain company, it would require its own handling facilities in order to function. And it would be a much different organization than the one farmers know today. Losing the single desk would mean losing the clout that the CWB leverages in order to maximize returns for farmers.

9. Loyalty is earned through performance. If CWB grain took second priority to the grain of a competing marketer in that marketer's handling facilities – for instance, if the competitor's grain were to be moved first after an avalanche, or if the competitor's barley were commingled so as to have better colour than CWB grain – the CWB's performance would suffer. So would reputation, business and then market share. Farmer loyalty would not be far behind.

10. Grain companies may or may not use their handling rates to price the CWB out of the market initially. However, at the same time as they are handling grain for the CWB, they will most certainly be working hard to make inroads into the same markets. Once they do, who will guarantee that these companies will continue to provide fair handling rates and good service for a key competitor – especially at the expense of their own bottom line?

11. Of the four studies referenced by Mr. Penner, two were paid for by the Alberta government, and three were not submitted for peer review. In

Agricultural think tank The George Morris Centre points out "...mandatory organizations in Canada that have moved to voluntary status have actually become stronger marketing organizations..." and one of the key recommendations by authors of the 2006 Market Signals Report was to "Allow marketing choice in barley".

### **Choice Respects Everyone's Rights**

A vote for choice is one that respects everyone's rights, and does not place one group of farmers ahead of another. Farmers who want to sell to the CWB can continue to do so and those who wish to pursue other avenues can do so as well. That is a basic Canadian freedom enjoyed by growers of every other crop except Prairie wheat and barley,<sup>12</sup> *and it serves them well.*

### **A Positive Vote**

<sup>13</sup>*A vote for choice is not a vote against the CWB. It is a vote that acknowledges there is more than one way to successfully market barley and that no single way works best for everyone all the time.*

No two farmers are exactly alike and neither are their business requirements or marketing strategies.

<sup>14</sup>*Choice will allow individual farmers to match their own personal skill-sets, strengths and tolerance for risk with the marketing system that they see working best for them.*

This is why you should vote in favour of marketing choice.

contrast, there are 17 studies concerning the CWB and barley covered in (even the abridged literature review in) the 2005 Schmitz, Schmitz and Gray barley study. The majority are peer-reviewed.

12. Many Canadian cattlemen who dealt with rock-bottom prices during the BSE crisis while packers reaped record profits would disagree that the free market – usually dominated by a handful of multinationals – serves farmers well.

Meanwhile, growers of wheat outside the designated area are under the same “restrictions”, in the sense that the marketing system is chosen by a majority of farmers. In both Ontario and Quebec, farmers have had the right to choose their marketing systems. In a 2005 province-wide producer vote, Quebec farmers established a single desk for Quebec-grown wheat destined for human consumption. The Fédération des producteurs de cultures commerciales du Québec (FPCCQ) is now in its second year of operation. And it was through a producer vote that Ontario decided in 2003 to move away from a single desk for wheat to an open market.

13. There is no more appealing concept than ‘having your cake and eating it too’. Unfortunately, facing several enormous obstacles (such as having no physical assets) a “strong, viable CWB” just is not possible. Removing the single desk would remove the key competitive edge the CWB leverages in order to maximize returns for western Canadian farmers

14. The CWB has recognized farmers’ desire to manage risk based on their individual business needs. That’s why the CWB’s farmer-elected directors asked management to devise the Producer

Payment Options (PPOs).

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