CWB RESPONSE TO MINISTER STRAHL'S TASK FORCE EXAMINING IMPLEMENTATION OF MARKETING CHOICE

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Introduction

Through the recommendations made in the October 25th *Report of Technical Task Force on Implementing Marketing Choice for Wheat and Barley,* the federal government's task force defines what is meant by a "strong and viable" Canadian Wheat Board (CWB). Evidently, it is the creation of a small, share-capital grain company that will have virtually no resemblance to the CWB today, and that:

- may or may not be owned by farmers;
- would function solely in the interest of its shareholders;
- would have no market power and face huge and likely insurmountable barriers to entry into a transnational-dominated marketplace;
- would have a major dependency on its competitors for handling services;
- could not continue to offer pooling or any other feature or program not already available from grain companies today.

We note that the task force acknowledges that the CWB as we know it today could not co-exist in a dual market, but rather as simply another small grain company in an open market. The task force concludes that dual marketing "*implies to some that the existing marketing approach (a CWB with monopoly powers) could co-exist with an open market approach. This is not possible.*"

We note that the task force clearly identifies the need for a legislative change to change the CWB's mandate, which in turn, requires a farmer plebiscite as laid out in section 47.1 of the current *Canadian Wheat Board Act.*

The task force acknowledges some of the significant hurdles a CWB without a single desk would face in an open market, noting "*that if the CWB is not well prepared to enter into the new, competitive environment, there is a significant risk of its failure.*" And yet in its conclusions the task force simply assumes the new entity overcomes those obstacles.

In essence, the task force has proposed that the CWB lose its single desk, which is the engine of its value proposition to farmers, and attempt to enter, with absurdly little in the way of assets, a concentrated, consolidated, mature grain handling and marketing industry with notoriously high barriers to entry, dominated by transnationals. The task force report is long on transition period timing and how to alter CWB governance, but is short on exactly what the new entity would have to enable it to survive in such an environment, and most importantly does not outline the significant loss in benefits as a result of the change. The task force leaves it up to the CWB to figure out the details, offering little more than that the new entity "*can successfully find a role, if the organization has the will and appropriate economic model to make it happen.*"

Farmer control and ownership

Prospects for farmer control and ownership under the task force recommendations are unrealistic and naive. Following passage of an amended Act, the task force would remove the current farmer-elected board, replacing it with a transitional board appointed by the federal government, then followed by a permanent board of uncertain composition. It also recommends a share capital organization with no restrictions on who could own shares in the new entity, which would leave it vulnerable, in the unlikely event that it survived at all, to experience the same loss of farmer ownership and control experienced by Manitoba Pool, Alberta Pool, Saskatchewan Wheat Pool, and United Grain Growers. The demise of or changes to those organizations left the CWB as the last major western Canadian grain organization operating solely for the benefit of farmers, and the task force would remove it from that role.

The new entity's value proposition (or lack thereof)

The task force report has detailed recommendations on the timing and governance issues that arise from dismantling the CWB as it exists today. But it is silent on how the new entity is to design a business plan to succeed, other than to lay that task at the feet of the current CWB. It simply takes as an article of faith that the new entity could leverage the following strengths:

- "*Customer relationships and a thorough knowledge of their requirements.*"

  Existing CWB sales personnel would be hired away by competing grain companies. And customer loyalty only goes so far when competitors are able to offer the very same product for a lower price.

- "*A solid reputation for pricing, delivery, and contract execution with buyers.*"

  This reputation would deteriorate quickly as the new entity experienced problems executing contracts due to insufficient handling assets provided by its competitors vying for the same markets.

- "*Loyal producers.*"

  Farmer loyalty, like customer loyalty, requires consistent performance. It would only carry the new entity so far, and temporarily. To be sustainable, ultimately the new entity would have to offer value relative to its competitors—the same ones upon which it would rely for handling services.

- "*Experience in operating a pooling system for producers.*"

  The task force contends, with no evidence, that the new entity would offer pooling. But no grain company now, neither in Canada nor the U.S., has shown that it can sustainably operate a pool for wheat, durum or barley the way the CWB currently does. Why would the new entity be any different, or not encounter the same problems?

Capitalization

The task force's proposed capitalization of the new entity is woefully inadequate. The task force cannot be in the real world if it is suggesting that this would allow the new entity to compete against transnational companies whose capital is measured in billions of dollars. The task force proposes an asset base for the new entity of $110 million. As a point of reference, Weyburn Inland Terminal, one delivery point out of 356 in Western Canada, has total assets of approximately $45 million. Where is the evidence that allows the task force to contend that the new entity could be "strong and viable" in such an operating environment as was clearly part of their task? Would the task force members put their own capital in the new entity as they ask of farmers?

Disempowering farmers

Assuming for the sake of argument that the new entity survived, its grain marketing activities would be very quickly drawn away from it to those companies that have adequate primary and terminal elevator assets, that are both vertically and horizontally integrated and that are tied to strong international marketing networks. There are already a number of mature companies in the Canadian marketplace that have all these attributes and they would very quickly dominate the business. Market participants without these attributes would either align with these mature companies or fail. Moreover, of these mature Canadian companies, only those that are closely aligned with the transnational companies that control the vast majority of the current global grain trade would ultimately survive. All of these companies are integrated, both vertically and horizontally, across most if not all key elements of the value chain. They source grain from around the world and in doing so their focus is quite naturally only on the most profitable way to make the sale. Subject only to transportation costs they are necessarily indifferent to whether the grain needed for the sale comes from Argentina, America or Ukraine as long as it meets the minimum quality specifications. In the absence of the single desk it is inevitable that these same companies would control the Canadian wheat, durum and barley trade as well, and marketing of western Canadian wheat and barley would move from farmers to large international companies.

And where is the economic analysis for the proposal, or even rationale? The CWB of today positions farmers to make more money marketing wheat, durum and barley in a distorted world market, and in an environment where there has always been, now more than ever, an imbalance in market power between farmers and the large entities that sell them inputs, buy production, or often both. The task force was directed to completely disregard this.

Where are the benefits?

In its efforts to provide rationale for changes to the current structure, the task force report simply holds as self-evident that the CWB no longer creates value, noting that "*the days have passed when millions of tonnes of wheat were marketed by state buying agencies on standard grades alone*". In saying this, the task force makes it clear that it is basing its recommendations on a fundamental misunderstanding of the current environment and of the CWB's role in it. The marketing environment that the task force describes ceased to exist long ago and the CWB has been operating successfully in the "new" environment for many years. Today's CWB continues to add value as it makes numerous, smaller niche sales, many consisting of just a few railcars at a time.

In the most recent survey of CWB customers, 80 to 95 per cent of buyers said that the CWB's customer service was as good as or superior to that of its competitors. This is the result of concerted marketing efforts at the CWB that include working with small customers to develop new products; create new credit programs for small, private customers; meet customers' evolving food safety needs, create programs to promote and segregate new varieties; and develop programs to manage non-visual quality attributes. And this is not to mention the hundreds of millions of dollars in annual price premiums that the single desk is able to generate, nor the economic benefit of the CWB's unique contribution to numerous other activities, related to and including railway competition, varietal development, genetically modified products, short line railways, producer cars, food safety, market access and quality control and assurance. The task force fails to acknowledge any of this, and instead reduces a complex, evolving and nuanced marketing environment to trite observations of whether customers were, or are, private or state entities.

Conclusion

Finally, the task force would put the onus for success of the new organization on farmers, and lay fault at their doorstep should the new entity fail. The report notes of farmers that "*if they believe in the need for the (new entity), they should show their support for it by investing some money in it to become an owner*", *and "the success of the (new entity) will depend on producer decisions about whether to support it or not.*" Therefore, if its cash bids for farmers' grain were uncompetitive due to a serious structural problem, such as lacking capital to own sufficient port assets or international infrastructure, then it would be farmers' fault for the entity's failure, either for failing to deliver enough grain to it, or failing to invest enough money in it. It is poor and irresponsible policy to strip an internationally-recognized, farmer-controlled organization of its market power, propose to replace it with some minor entity that is intended to take on transnationals, but with severe structural and capital disadvantages, and then tell farmers it is their own fault when it fails.