

## Benefits and Services of the CWB

The CWB's marketing approach, including among other things single-desk selling, sourcing grain by means of a contract call system, and providing negotiating leverage for farmers results in farmers earning between approximately \$530 million and \$655 million more for their grain each year than they would in an open market. A summary table of the benefits is appended. The CWB's advocacy efforts on behalf of farmers on such issues as the premature introduction of genetically modified grain, and holding service providers accountable for their level of service to farmers is also substantial. The results of some of these efforts are quantified in the following.

- Single-desk selling gives farmers marketing clout when negotiating with customers worldwide. Many customers around the world consider the products grown by western Canadian farmers and marketed by the CWB to be of premium value. These customers' willingness to pay is reflective of the value they place on western Canadian grains. In a multiple seller environment, where a number of companies would have access to both the product grown by western Canadian farmers and the customers that place a high value on that product, the negotiating position of customers will improve considerably. Ultimately, this improved negotiating leverage would mean customers would no longer have to pay premium prices for the grain they buy. The value of the single desk marketing approach is substantial, as follows:
  - The value of single-desk selling for wheat has been estimated to be between \$146 million<sup>1</sup> and \$256 million<sup>2</sup> annually.
  - The value of single-desk selling for barley has been estimated to be \$59 million<sup>3</sup> annually.
  - The value of single-desk selling for durum has been estimated to be between \$92 and \$103 million<sup>4</sup> annually. The CWB recognizes that in order to achieve single-desk benefits in this magnitude for durum, there may be years like 2005-06 where farmers end up storing excess durum on-farm. In 2005-06 durum carryout was a million tonnes higher than average. The cost to farmers of carrying that million tonnes until 2006-07 would be approximately \$15 million<sup>5</sup>. Note that this is not an annual cost to farmers and assumes that an average carryout for durum would be approximately 1.8 million tonnes irrespective of the marketing system in place in Western Canada.

The following CWB activities and services contribute to the value of the single-desk identified above.

- Marketing discipline – by managing price, volume and timing, the CWB ensures that CWB grains do not flood the market and push values down to a level that would clear volumes quickly but not return a reasonable value to farmers – durum, malting barley and high protein wheat are good examples. The benefits of disciplined selling are sometimes hard to quantify, however they were very apparent in 2005-06 CWAD marketing. Total Canadian CWAD supplies in 2005-06 were 8.4 million tonnes versus total world durum trade of 7.3 million tonnes (IGC). If that quantity of durum was offered to the marketplace in 2005-06 values would have deteriorated to near feed values. Instead, CWB marketed record durum quantities but in a manner that maintained international values and the excess carryover will be marketed at even higher values in 2006-07.

<sup>1</sup> Gray benchmarking exercise – port to port results.

<sup>2</sup> *Performance Evaluation of the Canadian Wheat Board*. Kraft, D., Furtan, W.H. and Tyrchniewicz, E. 1997

<sup>3</sup> *The CWB and Barley Marketing: Price Pooling and Single-desk Selling*. Schmitz, A., Schmitz, T. and Gray, R. 2005

<sup>4</sup> CWB calculations based on similar methodology to KFT and Schmitz barley studies.

<sup>5</sup> Calculation includes the 5-year average farmgate value of durum (\$189/tonne) and an 8 per cent annual time value of money.

2005-06 exports	4.23 million tonnes	
2005-06	1 CWAD 13.0	\$195.00
2005-06	CFW/5 CWAD	\$115.00
2006-07	1 CWAD 13.0	\$208.00

The benefit of this year alone (conservatively) would be \$200-300 million dollars.

- Branding – the CWB promotes western Canadian grain as consistent and high-quality in order to attract premiums from customers and maximize the value of the single-desk
- Market development – the CWB is dedicated to expanding markets for western Canadian grain and products, both directly and through its support of partners such as the Canadian International Grains Institute and Canadian Malting Barley Technical Centre.
- As an extension of its market development efforts, the CWB offers identity preserved contracting geared towards developing new markets for new varieties of CWB grain.
- The CWB supports research and development at Universities, through the Western Grains Research Foundation and elsewhere on issues important to and affecting farmers. Support in the past has included the following:
  - \$400,000 contribution to the Canadian Wheat Board Centre for Grain Storage Research at the University of Manitoba-- a facility used to conduct research aimed at reducing the effects of harmful factors such as insect infestation, mould and excess moisture on grain stored in granaries;
  - \$400,000 contribution to Agri-Food Discovery Place at the University of Alberta— a research facility focused on developing new value-added opportunities for wheat and barley;
  - Proposed \$400,000 contribution to the University of Saskatchewan Department of Agricultural Economics to establish a Grain Policy Research Chair. Research conducted by the Chair will focus on the effect of policies on the economic sustainability of grain production on family farms, in particular the development of new technology, production and transportation systems, and governance;
  - Proposed \$1 million in capital funding to establish a training and technical centre in Beijing, China in partnership with the China Cereals Oilseeds and Foodstuffs Corporation (COFCO). The centre will support China's milling and food-processing industry. The technical centre is a natural extension of the CWB and COFCO's long-standing, positive business relationship. Operating costs of the technical centre will also be shared between the CWB and COFCO.
  - \$330,000 in funding to date plus an additional \$300,000 commitment for future funding for fusarium research at the Brandon Research Centre and at Agriculture and Agri-food Canada's Ottawa facility;
  - \$400,000 per year in graduate level and undergraduate level College and University scholarships.
- The CWB's Weather and Crop Surveillance department constantly monitors worldwide weather and crop conditions. These efforts enhance the CWB's market intelligence and its revenue-maximizing marketing strategy.

- Similarly, the CWB's Market Analysis department constantly monitors market conditions around the world, which further enhances the CWB's market intelligence and its revenue-maximizing marketing strategy.
- Policy expertise in areas important to the CWB and its marketing efforts (e.g., trade, transportation, etc.) – has been a factor in the successful defense of various U.S. trade challenges, a successful railway level of service complaint, etc.
- As the sole seller of wheat, durum and barley grown in Western Canada, the CWB has significant negotiating leverage with service providers including railway companies and grain handling companies.
  - Tendering and railway and terminal handling agreements contributed \$38.1 million to CWB pool accounts on average over the 2001-02 to 2004-05 time period<sup>6</sup>.
- Farmers benefit from the Government of Canada's initial payment and borrowing guarantees. The initial payment guarantee protects farmers from incurring the cost should sales revenues be insufficient to cover the payments made to farmers. The borrowing guarantee enables the CWB to borrow at interest rates comparable to its competitors.
  - The CWB generates net interest earnings on money owed to the CWB by customers on past grain sales. Net interest earnings are generated because the CWB borrows at lower rates than are paid by its debtor customers and have been on average \$66.2<sup>7</sup> million over the past 5 years.
- As a corporation that does not retain profits from the sale of grain, farmers receive the full value of their grain from the CWB less the corporation's operating costs. In other words, unlike companies operating in the open market for non-board grains, the CWB does not retain any profits for shareholders. Additionally, the use of the contract call system to establish delivery access rather than price (basis) ensures all farmers equitable access to the delivery system
  - The CWB estimates that grain handling companies have charged almost 40 per cent more in basis than their actual handling costs<sup>8</sup>. If the same handling companies had the ability to do the same for wheat, durum and barley, farmers' costs would increase by almost \$8 per tonne or \$145 million annually (based on a 5-year average of 18 million tonnes marketed through the CWB and handling costs of \$19.34 per tonne). The CWB recognizes that rationing delivery through a contract call system rather than price can result in farmers carrying stocks for longer periods than might otherwise be the case. To calculate the magnitude of these carrying costs, it is assumed farmers store 50 per cent of their contracted tonnage 3 months longer than they otherwise would. Based on the 5-year average quantity marketed by the CWB and average farmgate returns, farmers' carrying costs are approximately \$30 million annually. This assumes 8 per cent time value of money. Taking these carrying costs into account, the net benefit of the CWB's contract call approach is approximately \$115 million annually.
- The CWB's approach to managing the supply chain ensures that farmers capture any benefits from supply chain activities. An example of this is directing terminal blending to increase the overall value of grain. Arranging combination cargoes for customers demanding multiple products from Western Canada is another example of CWB involvement in managing the supply chain.

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<sup>6</sup> CWB calculations

<sup>7</sup> CWB annual reports

<sup>8</sup> CWB calculations based on CGC posted handling and cleaning tariffs and CWB observed canola basis numbers

- Terminal blending is estimated to provide a benefit of \$7-\$10 million to western Canadian farmers each year<sup>9</sup>. A portion of this is the benefit that accrues to farmers as a result of the terminals blending different downgrading factors from different regions to increase the proportion of higher quality milling wheat. The additional benefit is the result of the blending of wheat with varying protein levels so as to maximize total revenue on the sale of those grains.
- The CWB ensures farmers have a unified voice in the marketplace. In this regard, the CWB advocates and pursues farmers' interests on marketing-related issues (e.g., GM wheat, transportation, etc.)
  - The CWB won a 1997 legal challenge against CPR for failing to provide farmers adequate rail service. The CWB and CPR settled on a \$15 million compensation for damages
  - On the same claim, the CWB reached a commercial settlement with CN outside the courts. The amount of compensation was never released publicly.
  - The CWB has been instrumental in preventing the premature introduction of genetically modified wheat varieties. It has been estimated that introducing GM wheat into Western Canada could result in a revenue loss to farmers in the range of \$200 - \$400 million annually<sup>10</sup> to the Canadian Wheat Board CWRS pool accounts
- In its efforts to encourage availability of competitive services for farmers, the CWB ensures a level playing field exists for supply chain participants. This includes supporting the existence and feasibility of producer cars, shortline railways, farmer-owned inland terminals, etc.
  - Farmers have shipped 7,800 producer cars on average over the last three years. Approximately 2,600<sup>11</sup> move through producer car loading facilities whereby handling charges apply. Administration costs of \$1 to \$2 per tonne apply to the other 5,200 cars. Assuming 85 tonnes per producer car and a \$10 per tonne net savings on primary elevation (\$5.50 on the 1,500 cars moving through the WCRR facilities; \$8-10 on the 1,110 cars moving through other producer car loading facilities), total benefit to farmers equates to approximately \$6 million annually.
  - The benefits of farmer-owned terminals are not easily quantified, but are very important to the competitive environment farmers experience in different regions. It can be assumed that farmers earn larger trucking premiums and receive more favourable grades in regions where farmer-owned handling facilities exist compared to regions where farmers are captive to one or two line companies.

There are also a number of benefits that can not be quantified in the same way as those above, but have considerable value to many farmers. These include:

- Pooling as a risk management tool for those who choose. Participation in the pool accounts ensures farmers that their commodity and foreign exchange risk is being managed diligently.
- Pooling is also the means used by the CWB to fairly distribute the value of the single-desk, and ensure all farmers share in the marketing and logistical costs and benefits equitably.

<sup>9</sup> CWB calculations

<sup>10</sup> Range depends on adoption of GM wheat in the U.S. Lower estimate reflects impact to Canadian farmers if Canada adopting and the U.S. does not. Upper end of range reflects the impact to Canadian farmers if both countries adopt. *Regulatory Approval Decisions in the Presence of Market Externalities: The Case of Genetically Modified Wheat*. Furtan, W.H., Gray, R.S and J.J. Holzman. 2005

<sup>11</sup> 1,500 move through West Central Road and Rail facilities and are charged a \$6.50 per tonne handling fee. The other 1,600 move through other producer car loading facilities and are charged between \$2 and \$4 per tonne for handling.

- For those farmers who choose, flexible pricing options enable them to make their own pricing decisions and still receive equitable share of the value of the single-desk.
- Flexible payment options also allow farmers to set a price floor for their grain at 80, 90 or 100 per cent of the expected value of that grain and still participate in upward movement in the market. The options available to farmers through the CWB exceed those available in an open market, where pooling has limited to non-existent availability.
- The CWB also administers the cash advance program on behalf of the federal government.
- As an extension of the cash advance program, the CWB Pre-delivery top-up program is a top-up to the cash advance program that gives farmers access to a greater portion of the value of their wheat before delivery.
  - Farmers borrowed \$5.9 million through the CWB pre-delivery top-up program in 2005-06. The CWB charges farmers prime rate on this money. Assuming this money was borrowed at 4 percentage points lower than what these farmers are paying elsewhere for a period of 6 months, the benefit to farmers equates to \$120,000.

## Appendix 1 – Summary of annual CWB benefits and services

Summary of annual CWB benefits and services	Annual net benefit
Value of CWB single desk marketing approach for wheat	\$146 - \$255 million
Value of CWB single desk marketing approach for barley	\$59 million
Value of CWB single desk marketing approach for durum	\$92 - \$103 million
Tendering and railway and terminal handling agreements	\$38.1 million
Net interest earnings	\$66.2 million
Approach to managing delivery system access	\$115 million
Terminal blending	\$7 - \$10 million
Farmer access to producer cars	\$6 million
Total	\$530 - \$655 million

In addition, the following must be considered:

- The CWB won a 1997 legal challenge against CPR for failing to provide farmers adequate rail service. The CWB and CPR settled on a \$15 million compensation for damages. On the same claim, the CWB reached a commercial settlement with CN outside the courts. The amount of compensation was never released publicly.
- The CWB has been instrumental in preventing the premature introduction of genetically modified wheat varieties. It has been estimated that introducing GM wheat into Western Canada could result in a revenue loss to farmers in the range of \$200 - \$400 million annually<sup>12</sup> to the Canadian Wheat Board CWRS pool accounts.

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