# 2007-08 Fixed Price Contract - durum

CWB

Fixed Price Contract
durum

## What is it?

The Fixed Price Contract (FPC) is a pricing option that offers you a flat price for your durum. The CWB Pool Return Outlook (PRO) is used to establish a daily flat price from February 26, 2007 to October 31, 2007. The contract is a pricing commitment requiring 100 per cent application of deliveries. Since the FPC provides forward pricing opportunities prior to harvest, a 2007-08 CWB Series A or B delivery contract or a Guaranteed Delivery Contract (GDC) is required once you confirm your production.

## How does it work?

The FPC provides you a value outside the pool account that you can incorporate into your farm management practices for price risk, budgeting, fixing margins, planning seeding and improving cash flow. On delivery, you receive the initial payment for the actual grade delivered. An additional payment will be issued by the CWB within 10 business days. Producers who choose an FPC are not eligible for adjustment, interim or final payments from the pool account.

## Reference grade

Reference grades are used to post pricing information based on in store Vancouver or St. Lawrence. The reference grade is used as the base grade for your FPC. You will receive a premium or discount between the reference grade and the delivered grade based on the initial payment spreads at the time of delivery. The reference grade is No. 1 CWAD 13.0 per cent protein for the durum FPC.

## Sign-up

You can commit to a durum FPC by phoning the CWB with your Producer Identification Number (ID) and Personal Identification Number (PIN) or by faxing a sign-up application form. You must indicate the number of tonnes you want to commit to the durum FPC (minimum 20 tonnes).

## Prices and forms

| | |
|---|---|
| CWB Web site | www.cwb.ca, 'Farmers - Producer Payment Options' |
| Fax on demand | 1-800-275-4292 (telephone menu option #3) |
| Telephone | 1-800-275-4292 |
| Contact | CWB Farm Business Representatives |
| Visit | CWB handling agents/grain companies |

## Delivery requirements

Once you have committed tonnage to the program you are obligated to:

1. sign a 2007-2008 CWB Series A or B delivery contract or a GDC in order to deliver against your FPC; and
2. deliver 100 per cent of the tonnage committed to your FPC.

## Minimum delivery guarantee

The CWB offers a minimum delivery guarantee for the durum FPC because durum acceptance levels can be less than 100 per cent. The delivery guarantee is intended to provide farmers a guideline for determining the amount of tonnes to commit to the FPC program. For 2007-08, the guarantee is 80 per cent of production offered under Series A.

### Example

A producer signs a 1 200 tonne FPC for durum on April 25, 2007 based on the expectation of producing 1 500 tonnes in the upcoming crop year (1 500 x 80 per cent = 1 200). In the fall, the producer signs a 1 500 tonne Series A delivery contract. Tonnes offered under Series A are automatically rolled over to Series B. Below are the acceptance levels.

| Series | Sign-up tonnage | Acceptance level | Tonnes accepted |
|---|---|---|---|
| A | 1 500 | 70% | 1 050 |
| B | 450 rollover | 0% | 0 |

After the Series B acceptance announcement, the overall acceptance level for the crop year is 70 per cent. Because the overall acceptance has not reached the minimum guaranteed level of 80 per cent, a special delivery provision will be made for the producer to deliver an additional 150 tonnes (1 200 – 1 050), which must be settled against the FPC for durum.

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The CWB may offer GDCs for specific quantities of durum during the crop year to meet customer demand. Because GDCS offer 100 per cent acceptance, the minimum delivery guarantee does not apply.

## Payment

When you deliver your grain to the elevator:

1. Advise the elevator agent that the delivery is to be applied for payment under your FPC; and
2. You will receive your FPC payment in two parts:
   - The initial payment for the actual grade and protein you deliver; and
   - The CWB additional payment representing the remainder of your contract price calculated as: FPC contract price – reference grade initial payment + incremental payment value*.

* Incremental payment values reimburse you for the time value of money portion of the discount for deliveries made later in the year. Incremental payment rates are established on the sign-up date and are listed on the daily pricing schedule. The rates increase progressively each month from August to July and you are paid the rate associated with the month in which delivery takes place.

### Example

On May 18, the fixed price for the reference grade No. 1 CWAD 13.0 per cent protein is posted on the pricing schedule at $5.29 Cdn per bushel in store Vancouver or St. Lawrence. Bob signs an FPC on this date.

Bob delivers No. 2 CWAD 12.0 per cent protein on October 10 and advises the elevator agent to apply the deliveries against his FPC. The initial payment for No. 1 CWAD 13.0 per cent protein is $3.27 per bushel and $3.21 per bushel for No. 2 CWAD 12.0 per cent protein. Bob receives the initial payment net of freight and handling costs for his location ($3.21 - $1.25 = $1.96 per bushel).

Within 10 business days, the CWB issues a payment representing the difference between his fixed price and the initial payment for the reference grade, plus the incremental payment value for October delivery ($5.29 - $3.27 + $0.01 = $2.03 per bushel).

Bob's farmgate price works out to $3.99 per bushel ($1.96 + $2.03) for the No. 2 CWAD 12.0 per cent protein. Bob receives no further payments on this durum.

## The FPC at work on your farm

| | Bob's numbers | | Your numbers |
|---|---|---|---|
| | Per bushel | Per tonne | |
| CWB initial payment for the grade delivered | $3.21 | $117.95 | |
| Freight and handling deductions at the elevator* | $1.25 | $45.93 | |
| Net initial payment | $1.96 | $72.02 | |
| FPC value for reference grade | $5.29 | $194.37 | |
| CWB initial payment for the reference grade | $3.27 | $120.15 | |
| Incremental payment | $0.01 | $0.37 | |
| CWB additional payment | $2.03 | $74.59 | |
| Farmgate price | $3.99 | $146.61 | |

* Estimated deductions. These will vary by location.

## Changing Contract Commitments

The FPC offers several options for reducing contract commitments if you are unable to fulfill 100 per cent of your tonnage commitment.

1. You can assign the outstanding tonnes of your contract to another producer who is willing to assume the terms and conditions of the contract. All assignments are subject to a $15 administration fee per transaction. This fee is charged to the original contract holder (the assignor).
2. You can buyout the outstanding tonnes on your contract based on current market factors. Values posted on the date the buyout is initiated will be used to calculate the buyout cost. All buyouts are subject to a $15 administration fee; and
3. If you chose the force majeure option at sign-up, you can invoke it to reduce pricing damages for non-performance related to extreme events that cause production loss. There is a $3 per tonne cost associated with the force majeure option.

If you want to exercise any of these options, call the CWB at 1-800-275-4292.