CWB

2008-09 Basis Price Contract – Wheat

What is it?

The Basis Price Contract (BPC) for wheat is a pricing option that offers producers the opportunity to lock in a futures price one year in advance of harvest. You will have the opportunity to lock in the December 2008 futures from September 4, 2007 until October 31, 2008. The basis lock-in period runs from February 25, 2008 to October 31, 2008. The BPC is a pricing commitment requiring 100 per cent application of deliveries. Since the BPC provides forward pricing opportunities prior to harvest, a 2008-09 CWB Series A, B, or C delivery contract or a Guaranteed Delivery Contract (GDC) is required once you confirm your production.

How does it work?

The BPC 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 if the BPC is fully priced. Additional payments on BPCs that are not fully priced are not issued until the full contract value (basis and futures) is priced. Producers who choose a BPC are not eligible for adjustment, interim or final payments from the pool account.

Reference grades

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 BPC. 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. Reference grades for wheat are as follows:

Wheat class	Reference grade	Futures contract
CWRS	No. 1 CWRS 13.5	Minneapolis Hard Red Spring
CWHW	No. 1 CWHW 13.5	Minneapolis Hard Red Spring
CWES	No. 1 CWES	Minneapolis Hard Red Spring
CWRW	No. 1 CWRW Select 11.5	Kansas Hard Red Winter
CPSR	No. 1 CPSR	Kansas Hard Red Winter
CPSW	No. 1 CPSW	Kansas Hard Red Winter
CWSWS	No. 1 CWSWS	Chicago Soft Red Winter

Sign-up

You can commit to a wheat BPC 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:

1. the number of tonnes you want to commit to the wheat BPC (minimum 20 tonnes); and
2. the class of wheat.

Prices, forms and sign-up periods

CWB Web site	www.cwb.ca, ***'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 2008-09 CWB Series A, B or C delivery contract or a GDC in order to deliver against your BPC;
2. deliver 100 per cent of the tonnage committed to your BPC.

Payment

When you deliver your grain to the elevator, advise the elevator agent that the delivery is to be applied for payment under your BPC.

You will receive your BPC payment in two parts:

- The initial payment for the actual grade you deliver.
- The CWB additional payment representing the remainder of your contract price calculated as: BPC 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 November 22, the December 2008 Minneapolis wheat futures are posted on the daily pricing schedule at $5.85 Cdn per bushel in store Vancouver or St. Lawrence. John signs the futures portion of a wheat BPC on this date. On May 15, John locks in a December basis of $0.10 per bushel for an overall contract value of $5.95 per bushel ($5.85 + $0.10), based on the reference grade.

On October 10, John delivers No. 2 CWRS 12.0 and advises the elevator to apply the delivery against his BPC. The initial payment for No 1 CWRS 13.5 is $5.54 per bushel and for No. 2 CWRS 12.0 $5.30 per bushel. John receives the initial payment net of freight and handling costs for his location of $4.05 per bushel ($5.30 - $1.25).

Within 10 business days, the CWB issues a payment representing the difference between John's BPC value and the initial payment for the reference grade, plus the incremental payment value for October delivery ($5.95 - $5.54 + $0.01 = $0.42 per bushel).

John's farmgate price works out to $4.47 per bushel ($4.05 + $0.42) for the No. 2 CWRS 12.0 he delivered. John receives no further payments on this wheat.

The BPC at work on your farm

	John's numbers		Your numbers
	Per bushel	Per tonne	
Minneapolis December Hard Red Spring futures	$5.85	$214.95	
CWB December basis	$0.10	$ 3.67	
BPC value	$5.95	$218.62	
CWB initial payment for the grade delivered	$5.30	$195.00	
Freight and handling deductions at the elevator*	$1.25	$ 45.93	
Net initial payment for grade delivered	$4.05	$149.07	
BPC value	$5.95	$218.62	
CWB initial payment for the reference grade	$5.54	$203.45	
Incremental payment for delivery month	$0.01	$ 0.37	
CWB additional payment	$0.42	$ 15.54	
Farmgate price	$4.47	$164.61	

* Estimated deductions. These will vary by location.

Changing contract commitments

The BPC 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 buy out the outstanding tonnes on your contract based on current market values. Values posted on the date the buyout is initiated will be used to calculate the buyout cost. All buyout transactions are subject to a $15 administration fee.
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.