

Retooling the CWB

PART 2

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In the last issue of GRAINEWS, I wrote about the benefits of marketing choice. I described how it would lead to higher farm gate returns, more processing on the prairies, and more freedom for us as individual farmers to deliver and sell our wheat and barley at a time that suits our individual needs. In this article, I plan to talk about the structural reforms the CWB needs to make to become an effective marketing choice for farmers.

Fact: The federal government has already agreed, as part of WTO negotiations in 2004, to give up the Canadian government guarantee of CWB borrowings and initial payments. Therefore restructuring of the CWB is not only anticipated, but is necessary. The date on which the guarantees will be removed has not yet been negotiated, but we expect it will be 2013, the same year in which the European Union has agreed to eliminate the use of export subsidies.

If this timeline is correct, then it will give us a few years in which to create a capital base and to transform the CWB into a truly privately owned and controlled company.

CREATION OF A CAPITAL BASE

The Wheat Growers are convinced the CWB cannot survive the loss of the guarantees unless it creates a capital base. Banks and other financial institutions are not going to lend the CWB the money it needs to finance its operations unless the CWB has enough equity. How big that equity base needs to be will depend on how much grain the CWB handles and the degree of risk the CWB assumes in setting the initial payment once the government guarantees are gone.

The Wheat Growers believe the formation of a capital base for the CWB could be created, in part, by the allocation of interest earnings that arise from the \$5 billion in old outstanding receivables that the CWB is currently carrying on its books. Right now, these earnings are about \$50 million a year and are distributed to you through the CWB Pool accounts as part of your final payment.

The Wheat Growers are suggesting that these old receivables, together with the associated liabilities, be moved off the CWB's balance sheet and into a separate Crown corporation set up for the sole purpose of administering these receivables. The interest earned should then be allocated to individual farmers in western Canada, on the basis of their wheat and barley production. Thus, if total interest earnings were \$50 million and the prairie wheat and barley crop amounted to 35 million tonnes, then each farmer would be entitled to receive \$1.43 for every tonne of wheat or barley he or she has produced.

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The Wheat Growers are proposing that individual farmers would then elect how they want to have the entitlement allocated to them. Each farmer could choose to either receive the entitlement directly in the form of cash, or in the form of shares in the CWB. We believe a good number of farmers would elect to invest their entitlement into CWB shares, because it would be tax-sheltered until they decide to cash in their shares.

If half of the farmers elected to take their payment in the form of CWB shares, then this could generate about \$25 million each year as a contribution to a capital base. In 6 years, the CWB could have a capital base of \$150 million.

The Wheat Growers are also proposing that the CWB be allowed to raise capital by issuing more shares. In our view, it should be up to the directors of the CWB to determine whether non-farmers could invest in these additional shares. Presumably the decision to allow non-farmers to buy shares would depend on the amount already contributed by farmers through the investment of their interest earnings, and the size of the capital base the directors felt the CWB needed to meet the loss of the government guarantees.

Some have suggested the Govern-

ment of Canada should provide a “gift” of money to the CWB to compensate for the loss of the guarantees. Under no circumstances should money be gifted to the CWB as this would no doubt cause further cases of trade action and would be completely unfair to competitors who have raised capital from private sources. No, if there is to be any compensation paid for the loss of the guarantees, that money should go directly to farmers, and from there we can each decide whether we wish to invest the money in CWB shares, our farms, processing facilities, ethanol plants or any other outside investment.

THE CWB OWNERSHIP MODEL

The Wheat Growers believe the ownership model of the CWB could take one of several forms. For example, the ownership model could be a traditional co-op, a new generation co-op, or a normal shareholding company. We're not hung up about the exact type of model, although a shareholding company might offer the CWB the greatest flexibility to raise capital, especially if the directors wanted to raise capital from non-farmers so it would be in a better position to acquire assets.

GOVERNANCE

The Wheat Growers recommend a transition in governance structure, from the present model where 10 of the 15 directors are elected and 5 are appointed by government, to a governance model where all directors are elected by shareholders. The election of directors by shareholders should occur once the government guarantees are gone. Until then the Wheat Growers are proposing that 10 of the directors continue to be elected by farmers as is the case now, providing the producer ballots are weighted according to pro-

duction of CWB grain, or on the basis of deliveries to the CWB once marketing choice is in place.

The Wheat Growers support the inclusion of non-farmer directors on the board of the CWB as we believe such directors can bring a valued skill set that may not be present among the elected farmer directors.

We propose that these outside directors be chosen by the farmer directors, not appointed by government. Eventually, however, once the government guarantees are gone and the CWB is truly a privately held and controlled company, then the shareholders (most of whom would undoubtedly be farmers) should elect all directors, including any non-farmer directors.

ACQUISITION OF ASSETS

The Wheat Growers suggest the CWB should be permitted to acquire grain handling and processing assets providing the following 4 conditions are met:

1. Farmers have complete marketing choice.
2. The government guarantee of borrowings and initials is gone.
3. The CWB is truly a privately owned and controlled company.
4. The formation of its capital base is through voluntary investments, either by farmers or other private sector sources.

If all the above conditions are met, then we believe the CWB should be permitted and in fact encouraged to invest in any assets that the CWB's board of directors believes are in the best interests of its shareholders.

The Wheat Growers are convinced that making the above changes will transform the CWB into a viable marketing tool for prairie farmers. Of course there are no guarantees, but the successful transition of the Ontario Wheat Producers' Marketing Board from a single desk marketer into an effective competitor suggests that it can happen in western Canada too, providing of course the CWB has the right people with the right attitude. ✍

Cherilyn Jolly-Nagel farms at Mossbank, Sask. The Wheat Growers position paper on marketing choice and restructuring the CWB can be found at www.wheatgrowers.ca/policies.htm