



Show Me the Money!

CWB Barley Marketing Performance

John De Pape February 16, 2007

WBGA / WCWGA Annual Convention

Calgary, AB



CWB bad

Choice good



Benefits of the CWB

Dueling economists....



CWB Estimates

- \$530 - \$665 million
 - Wheat marketing \$146 – 255 million
 - Barley marketing \$59 million
 - Durum marketing \$92 – 103 million
 - Tendering etc \$38.1 million
 - Net interest earnings \$66.2 million
 - Managing deliveries \$115 million
 - Terminal blending \$7 – 10 million
 - Producer cars \$6 million
 - What about overhead / admin costs?
 - What about impact on non-CWB markets?



CWB Estimates

- Wheat marketing \$146 – 255 million
 - Gray Benchmarking \$146 million
 - KFT analysis \$255 million
 - Which one is right?



CWB Barley Studies

- Carter (1993)
- Johnson and Wilson (1994)
- Clark (1995)
- Carter and Loyns (1996)
- Mao, Koo, and Kraus (1996)
- Stickland (1996)
- Carter, Loyns, and Berwald (1998)
- Sparks Companies, Inc (2003)
- Schmitz, Gray, and Ulrich (1993)
- Schmeiser (1995)
- Schmitz (1996a and 1996b)
- Schmitz et al. (1997)
- Brooks and Schmitz (1999)
- T.G. Schmitz and Gray (2000)
- Schmitz and Furtan (2000)
- A. Schmitz and Gray (2000)
- Dong and Stiegert (2003)
- Schmitz, Schmitz & Gray (2005)

Score by number of studies:
Score by number of economists:

Open market – 8; CWB – 11
Open market – 12; CWB – 10




Analytic Tools & Techniques

- Revenue maximizing spatial-equilibrium model (CRAM)
- Four-country spatial-price-trade model
- Policy simulations using a detailed spatial-equilibrium model
- Spatial partial equilibrium model
- Cointegration analysis
- static spatial-equilibrium model based on a quadratic-programming algorithm
- Qualitative assessment
- Hybrid spatial-equilibrium model



Analytic Tools & Techniques

- Logic
- Reasoning
- Grain trading experience / knowledge
- Healthy dose of skepticism



The Canadian Wheat Board and Barley Marketing

Schmitz, Schmitz & Gray

You've got to be kidding....



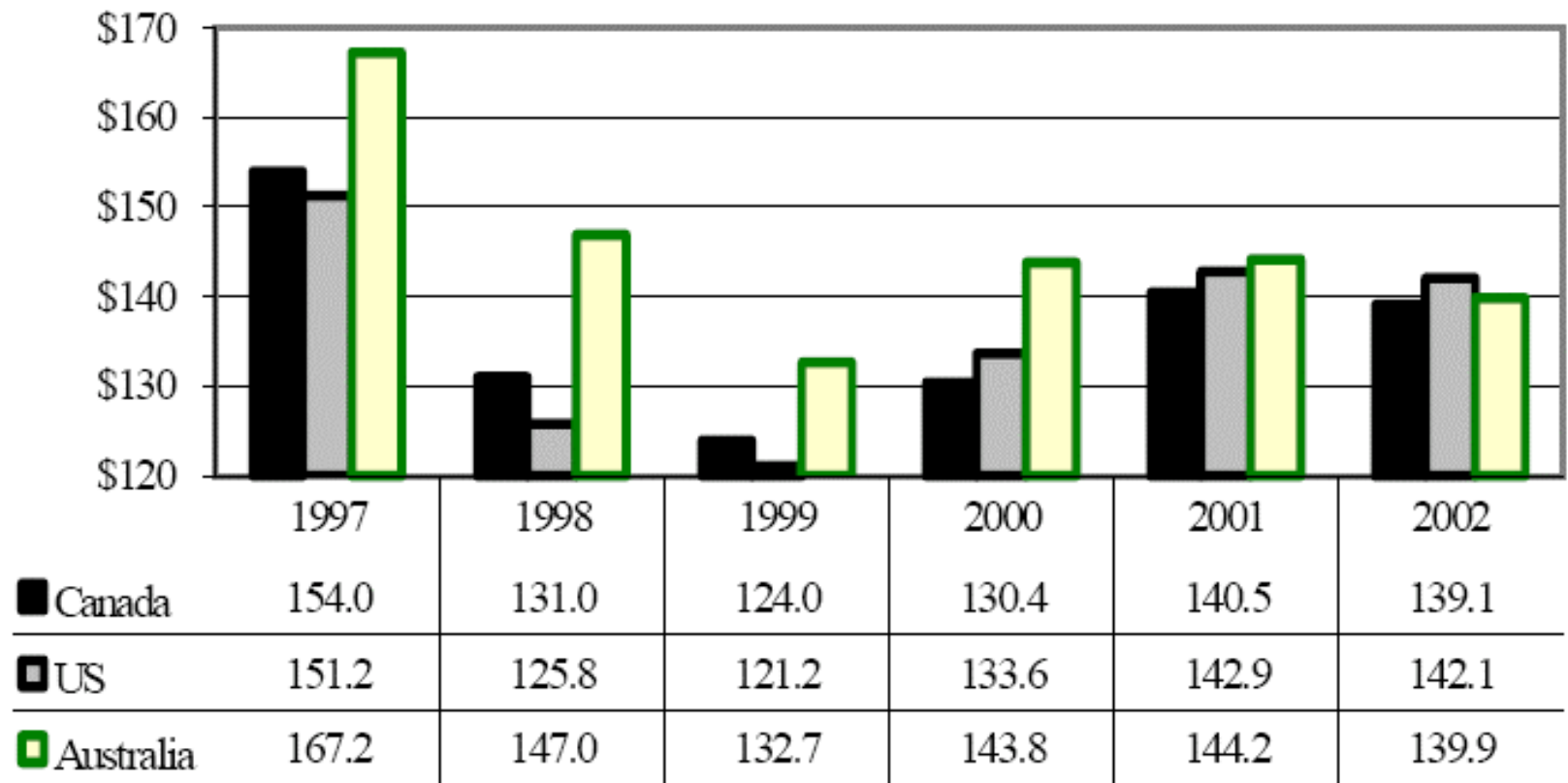
U of S Study

- \$59 million benefit on barley
- What are premiums?
 - Better price than other sellers/origins?
 - Better price than “multiple sellers”?
 - Based on quality? Service?
- Price discrimination ?
- Reflection of different markets ?



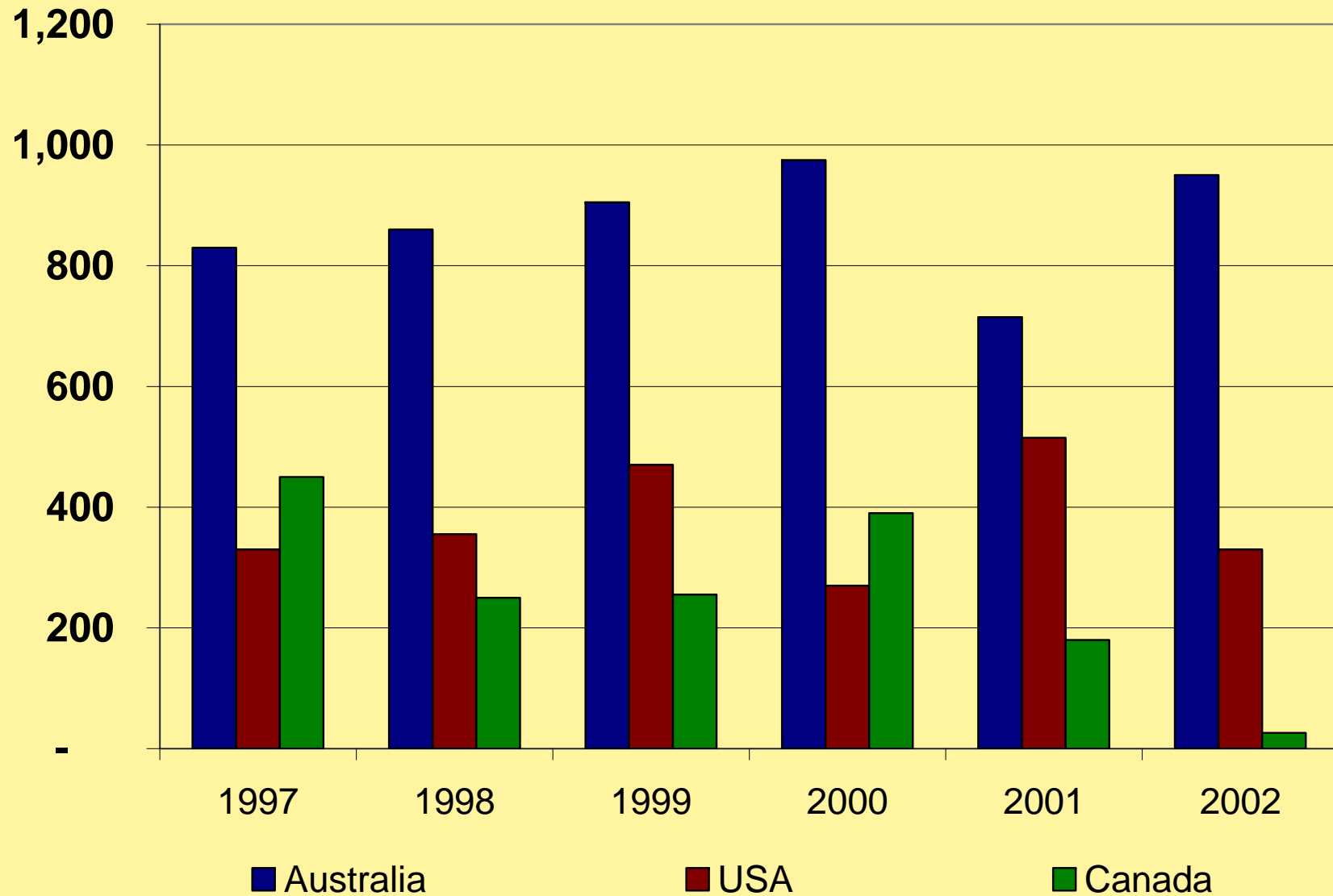
Price Discrimination

Chart 5.3 **Feed Barley Price Comparisons Basis CIF Japan**
(Calendar year averages, in US dollars per tonne)





Japanese Barley Imports





Price Discrimination

- *“Buyers would not be loyal to suppliers who are selling the same product at higher prices than what is available elsewhere.”*
 - Arbitrage?
 - What about price discrimination?
 - Competition – the disciplining factor



The Global Market

- *“Subject only to transportation costs they [multinationals] 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.”*
 - If they are indifferent, that means the buyer is also indifferent
 - So how do we price discriminate?



CWB Marketing Performance

Isn't this what really matters?

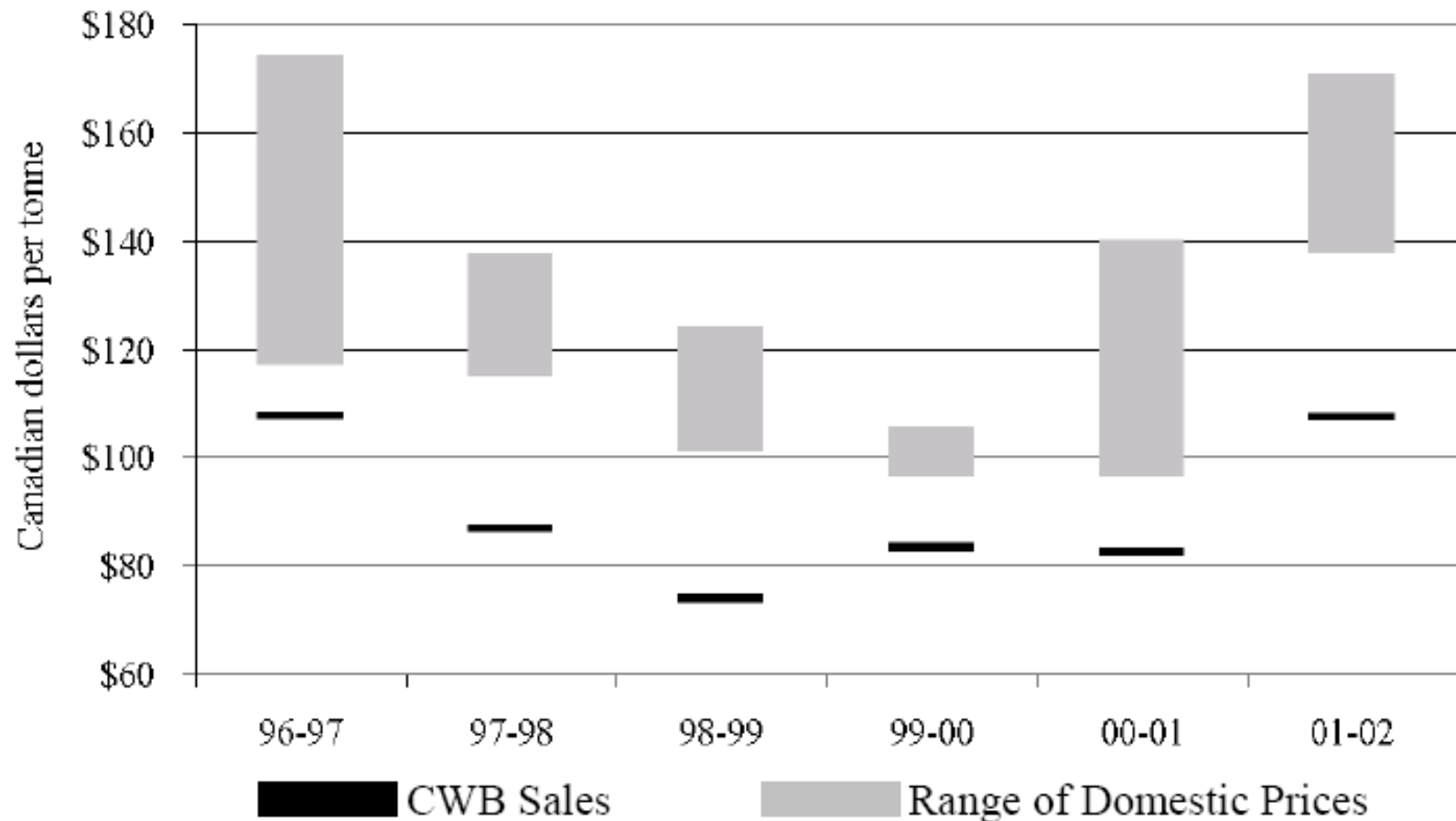


What any Marketing System Should Provide

1. Good sales prices
2. Low costs
3. Appropriate market signals
4. Opportunity / innovation / growth
5. Mature, professional relationship

Sparks Study

Chart 5.6 CWB Sales vs Domestic Prices, Basis Red Deer, Alberta

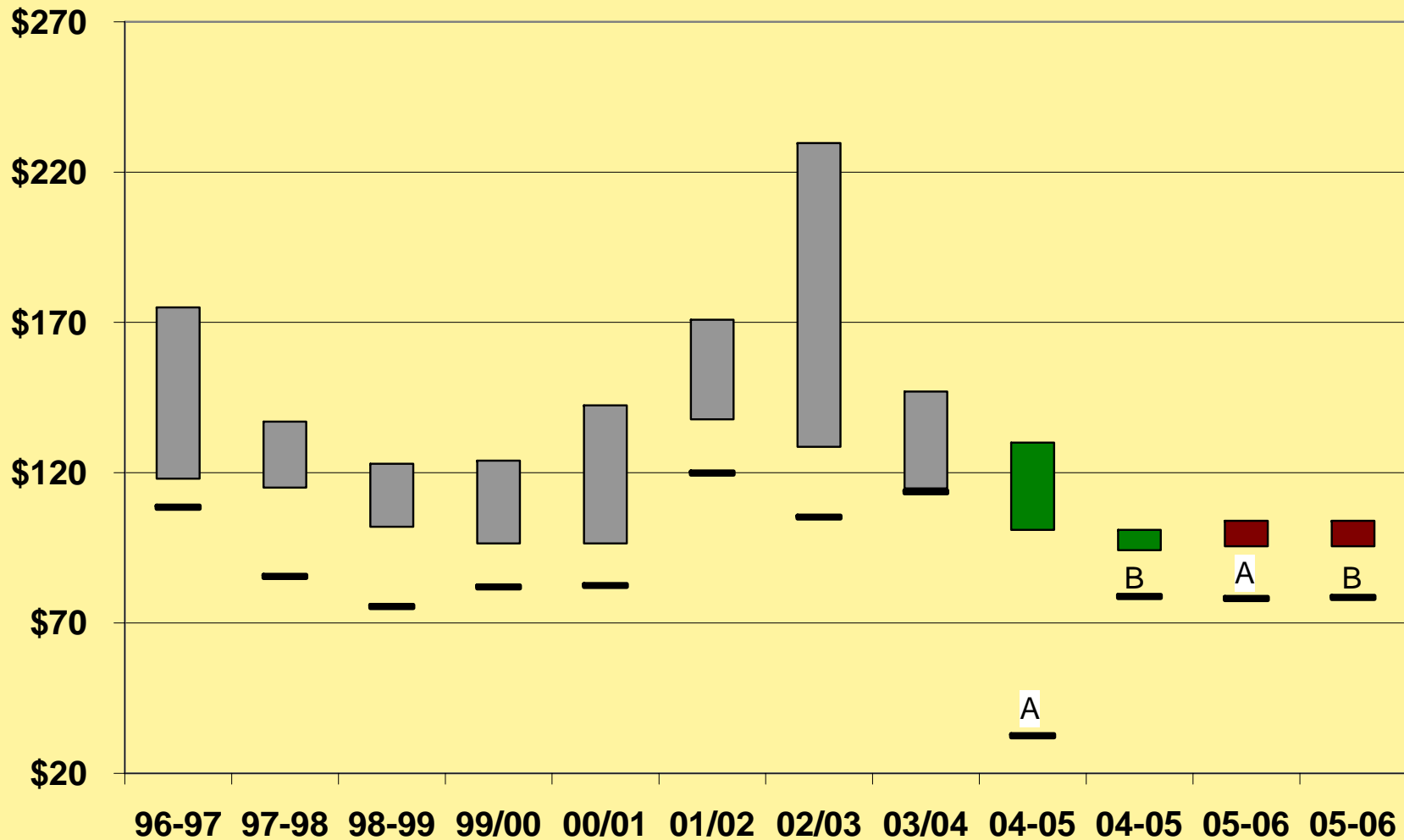


Sources: CWB Sales – CWB Annual Reports; Domestic Prices – Alberta Grain Commission (domestic feed mill bid prices).



Sparks Study Update

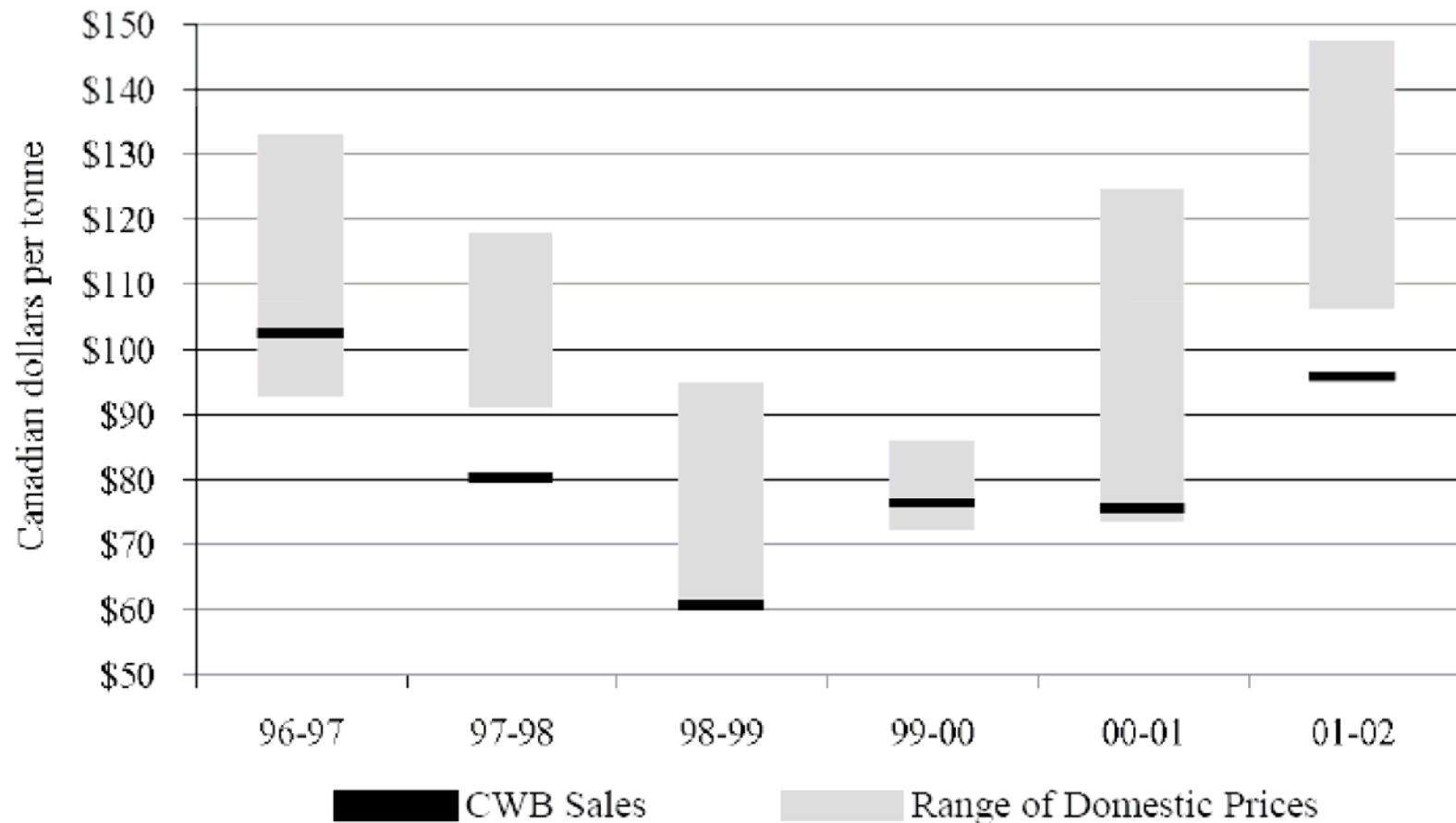
CWB Sales vs Domestic Prices, Basis Red Deer, Alberta





Sparks Study

Chart 5.7 CWB Sales vs Domestic Prices, Basis Saskatoon, Saskatchewan

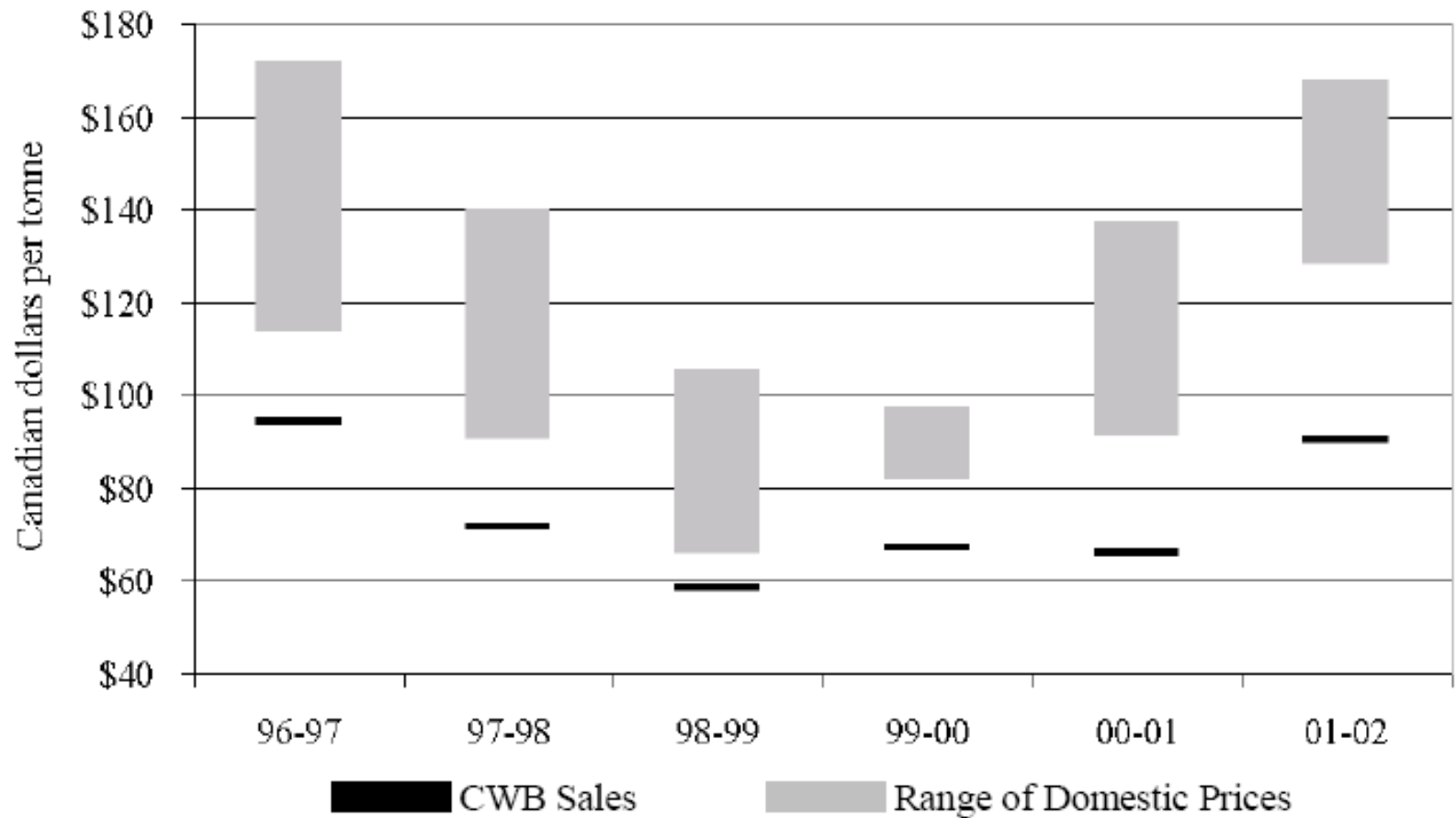


Sources: CWB Sales – CWB Annual Reports; Domestic Prices – Saskatchewan Agriculture and Food.



Sparks Study

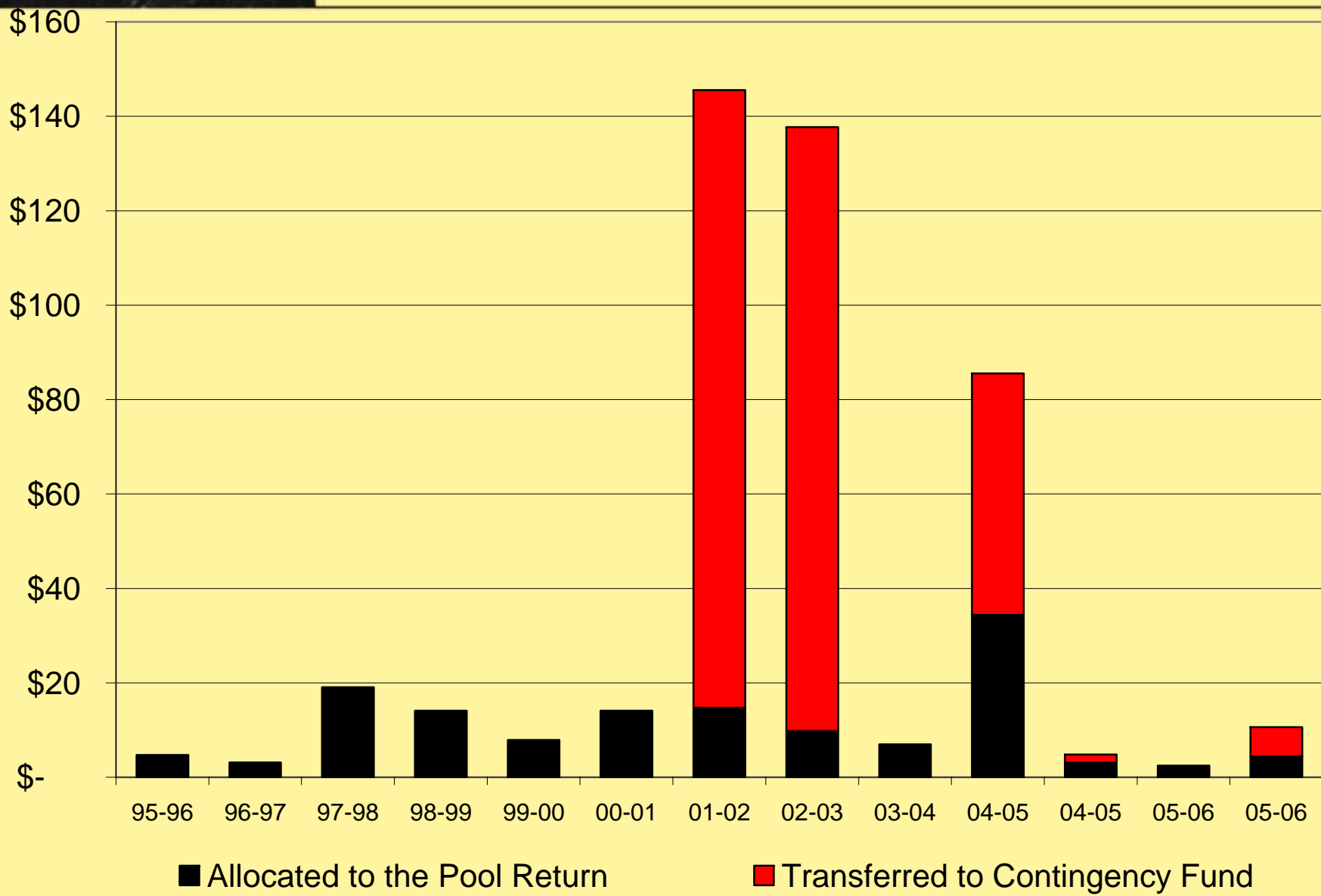
Chart 5.8 CWB Sales vs Domestic Prices, Basis Winnipeg, Manitoba



Sources: CWB Sales – CWB Annual Reports; Domestic Prices – Livestock Feed Bureau (domestic feed mill bid prices).

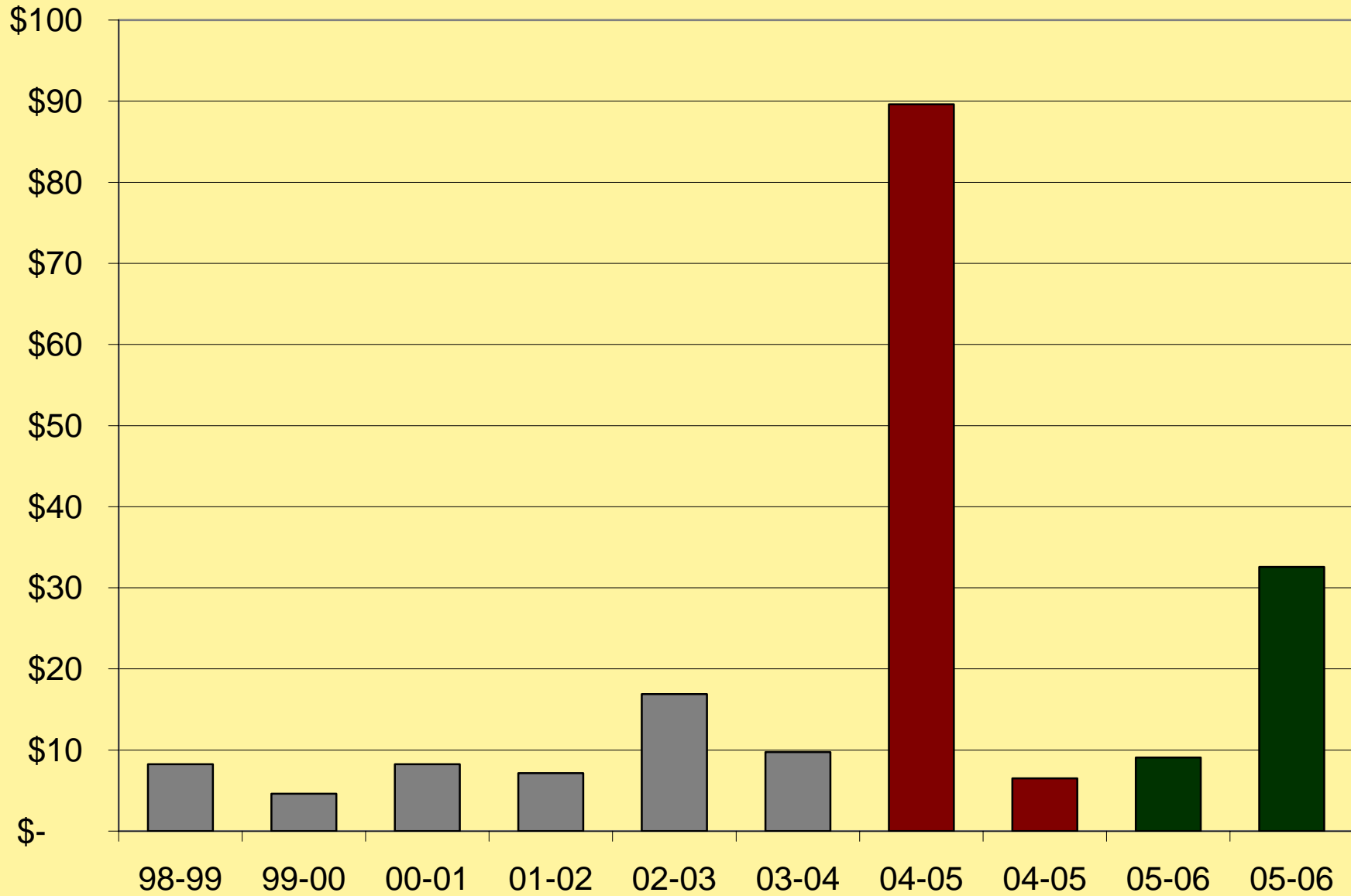


Interest Revenue in the Feed Barley Pools (\$/tonne)





Direct Costs in the Feed Barley Pools (\$/tonne)





2004 – 05 Feed Barley

- Pool A

29,022 tonnes

Direct costs = \$89.60

Interest = \$85.55

Transferred to contingency
fund = \$51.15

Remaining = \$34.40

Net = \$55.20

Return = \$115.21

- Pool B

468,736 tonnes

Direct costs = \$6.50

Interest = \$4.83

Transferred to contingency
fund = \$1.69

Remaining = \$3.14

Net = \$3.36

Return = \$130.31



Feed Market Signals

CWB: Arbitrage destroys the possibility of market premiums.

Instore Vancouver Value - Middle of Range	<u>Feed Barley (US no. 2)</u> 223.2	<u>Malt Barley (2-Row)</u> 249.1
CWB Pool Return Outlook Instore Vancouver	190.0 (1 CW Pool B)	205.0 (Special Sel. 2-Row)

Equivalent Value at Prairie Locations				
Middle of range, after deducting Freight, Elevation, and Cleaning				
	<u>Feed Barley (No. 1 CW)</u>		<u>Malt Barley (2-Row)</u>	
	<u>Value</u>	<u>CWB PRO</u>	<u>Value</u>	<u>CWB PRO</u>
Alberta Average	169.5	136.3	195.0	150.8
Saskatchewan Average	160.9	127.7	188.1	143.9
Manitoba Average	153.5	120.4	N/A	

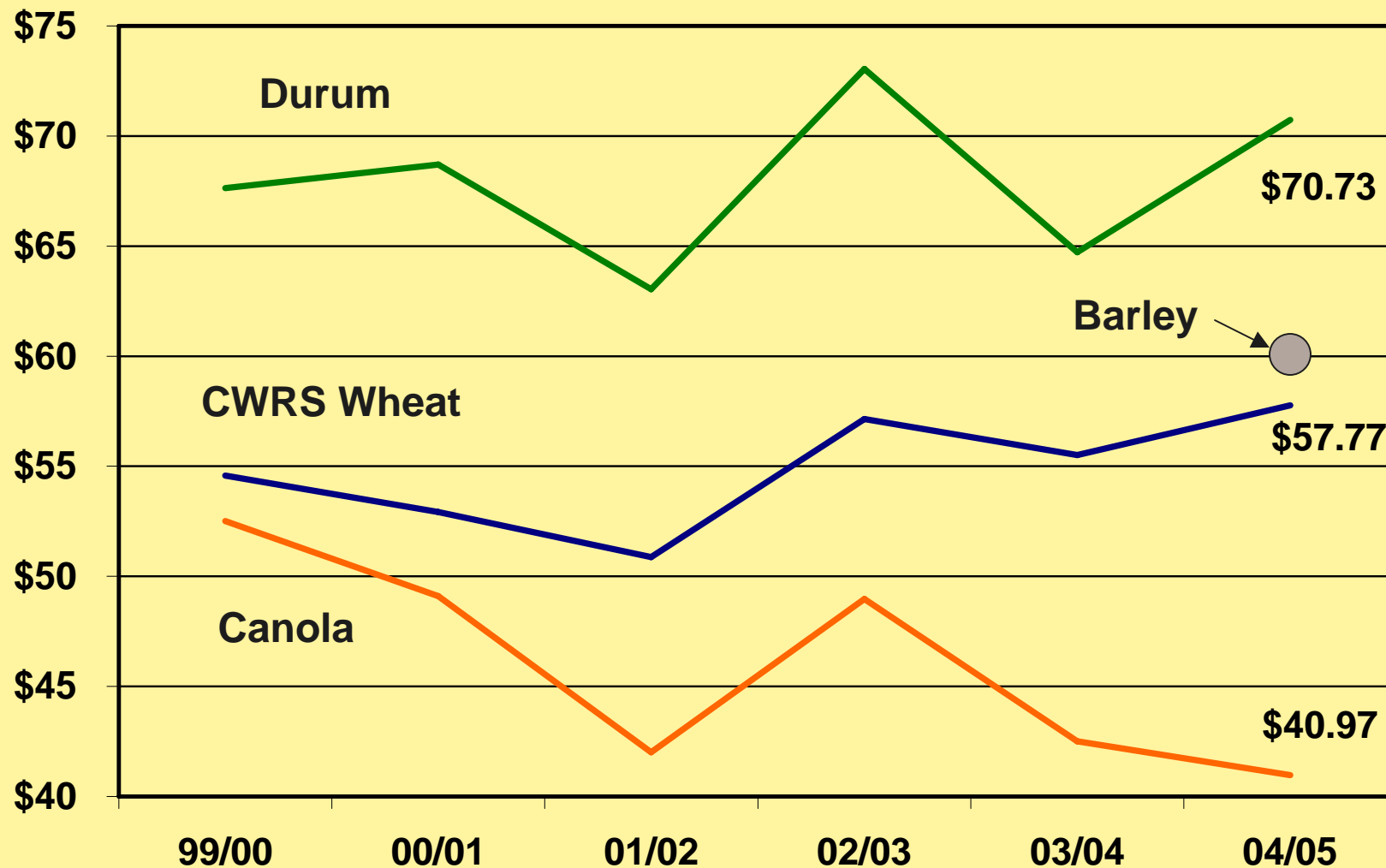
The background of the slide is a soft, yellowish-green color with a faint, repeating pattern of wheat stalks. On the left side, there is a vertical rectangular inset showing a close-up of wheat stalks silhouetted against a bright sun, creating a lens flare effect.

The Question of Costs

I think this matters too...



Cost Comparison





CWB Balance Sheet

- Barley

Premiums	\$18 million
Excess cost	\$40 million
Bottom line	-\$22 million



CWB Estimates

- \$530 - \$665 million
 - Wheat marketing **\$0 million**
 - Barley marketing \$59 million
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 - Tendering etc \$38.1 million
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CWB Estimates

- \$530 - \$665 million
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 - Durum marketing \$0 million
 - Tendering etc \$400 million
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CWB Estimates

- \$530 - \$665 million
 - Wheat marketing \$0 million
 - Barley marketing \$0 million
 - Durum marketing \$0 million
 - Tendering etc -\$400 million
 - Net interest earnings \$32
 - Managing deliveries -\$?? million
 - Terminal blending \$7 – 10 million
 - Producer cars \$6 million



The Barley Question

The CWB really doesn't like choices, does it?



Barley Markets

	tonnes (million)	proportion
Production	12.0	
Domestic feed	9.75	81%
Export feed (CWB)	0.25	2%
Domestic malt (CWB)	1.0	8%
Export malt (CWB)	1.0	8%
Total CWB	2.5	19%



2006 CWB Annual Producer Survey

Farmers are divided about marketing systems

- Given the choice for **wheat** marketing between only the CWB single desk and an open market, 63 per cent said they would prefer retaining the CWB single desk.
- Given three choices, 47 per cent said they would prefer a "dual market" for **wheat**, while 45 per cent would choose the CWB single desk. Only seven per cent would prefer an open market.
- Support for "dual marketing" is driven by a desire for control over delivery opportunities and a belief that competition will increase the value of **wheat**.
More than six of 10 farmers are worried about marketing their own **wheat** without the CWB.

Source: CWB website

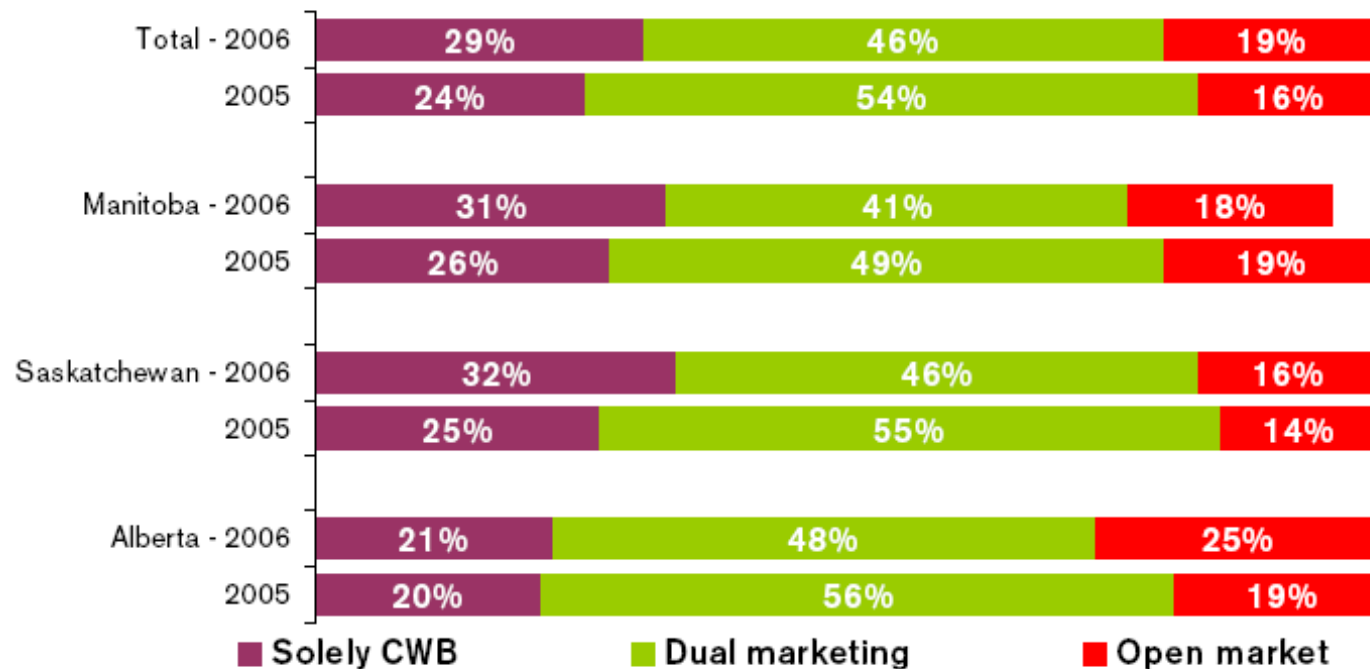
Dual marketing top choice for barley

Producers were also asked to choose between CWB sole marketing, dual marketing and an open market for marketing barley for export and domestic food consumption.

Q

If you had to choose between three different approaches to marketing barley, which of the following would you prefer?

1. That barley marketing, for export and domestic human consumption, remain the sole responsibility of the Canadian Wheat Board.
2. The dual marketing option, where private companies and individual farmers could compete with the CWB for barley sales in the domestic and export market.
3. That there be a totally open market for barley without the Canadian Wheat Board.





CWB II – Will it Work?

The CWB doesn't think so.....



CWB II – Will it Work?

- CWB position
 1. Without a single desk, CWB II won't have market power. No market power, no price discrimination. No value.
 2. Lose the CWB, lose the malt premium.
 3. CWB II won't be able to compete with grain companies.
 4. Voluntary pooling won't work.



CWB II – Will it Work?

- “CWB II won’t be able to compete with grain companies.”
 - Grain companies going after same business
 - Will shut out CWB II from system
- CWB needs a cultural shift
 - Agent representing farmers
 - Agent representing buyers
 - Value chain “Deal maker”
 - What about North Dakota / Montana farmers?



CWB II – Will it Work?

- “Voluntary pooling won’t work”
 - Rising market, price too low
 - Falling market, price too high
- CWB II will need to get away from idea of only flat prices
 - Flexible pricing
 - Initial price = basis



What will happen in a choice environment in barley?

- Export prices will not be driven lower
- Barley exports (feed or malt) will occur only if the market requires it
- Better arbitrage between domestic, offshore and US markets
- Market signals will be MUCH better
- Costs to handle/ship barley will drop
- Increased acreage; increased production
- Contracting for malt (at a premium)
- The sky will not fall



Win or Lose

- The CWB has some serious “reckoning” to do
- It owes Western Canadian farmers some serious answers
- No more platitudes, rhetoric and one-sided communications



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