

Western Canadian Wheat Growers Association

Advance submission to the Roundtable on the Canadian Wheat Board

Saskatoon, July 27, 2006

Introduction

The Western Canadian Wheat Growers Association welcomes the opportunity to provide comment on the Roundtable objectives in advance of our meeting in Saskatoon.

In putting forward these views, we are guided by the following fundamental principles:

- 1) The CWB should have every opportunity to successfully serve farmers in a market choice environment.
- 2) To the extent possible, the CWB should operate on a commercial basis. That is, there should be no special advantages conferred by legislation, nor should there be any disadvantages.
- 3) The federal government should move as quickly as possible to implement marketing choice, so as to curtail the financial losses that farmers are now sustaining under the single desk.

Objective #1

Develop the model of the Corporate Structure of the Canadian Wheat Board without single desk marketing authority and how it will operate.

In our view, there is no need to significantly alter the corporate structure of the CWB to accommodate a market choice environment. We note the Ontario Wheat Producers' Marketing Board successfully transitioned to a voluntary marketing organization without undergoing any significant change in its corporate structure.

The federal government guarantee of CWB borrowings allows the CWB to finance the purchase of grain from farmers and extend credit to customers. In the near term, we recommend the federal government guarantee of CWB borrowings and initial payments remain.

However, we recognize that as part of the WTO negotiations in 2004, Canada agreed to give up the federal government guarantees. While the outcome of WTO negotiations remains uncertain, we should prepare the CWB for this eventuality. To compete effectively, the CWB must have the means to finance the purchase of grain from farmers once the government guarantees are removed.

We believe this financing requirement can be met either through the provisions of the Agricultural Marketing Programs Act (as is the case for the Ontario Wheat Producers' Marketing Board), or through the marketing plan provisions under Part VI of the Canadian Wheat Board Act, or by the creation of a capital base.

If a capital base is created, then this base should be funded entirely by private sources. Any direct transfer of public dollars to the CWB would severely discourage private investment in the sector (thereby limiting competitive choices to farmers) and would invite trade action.

We believe the CWB should be transformed into a truly farmer-owned and controlled enterprise. In our view, there are several possible options and we are not wedded to any one particular enterprise model. For example, the CWB could be transformed into a voluntary marketing board (as is the case for Ontario wheat), a traditional co-operative, a new generation co-op or a private or publicly traded company.

In our view, when marketing choice is implemented, the CWB should initially be transformed into a voluntary marketing board. However, we recommend the CWB Board of Directors and its “owners” should eventually determine the enterprise model that they believe will best meet the CWB’s long-term business strategy. While initial ownership should rest with farmers, we believe provision should be made for the CWB to raise capital from non-farmer investors, if that is the direction decided upon by its Board of Directors and its farmer owners.

Objective #2

Identify additional financial and/or marketing instruments that will benefit farmers in an enhanced marketing environment.

In our view, the financial and marketing infrastructure to implement marketing choice is largely in place. Currently, most barley is marketed off-Board and most feed wheat is also sold in the non-Board market, so in many respects, implementation of marketing choice is simply an expansion of the non-Board market. We note that about two-thirds of crop production in western Canada in any given year is now handled outside the CWB, so we are confident the private grain trade has the financial and operational wherewithal to handle any increase.

The Winnipeg Commodity Exchange has already indicated it is ready to launch new risk management and price discovery tools once marketing choice is implemented. The commodity clearinghouse concept currently under development should also provide a good risk management tool for securing payment on a transactional basis.

One financial matter that does need to be addressed relates to the interest earnings the CWB now earns on old outstanding receivables, amounting to approximately \$50 million annually. In our view, allowing these interest earnings to remain in the CWB pool accounts has the potential to significantly distort the marketplace in a market choice environment.

To illustrate, the CWB currently handles about 20 million tonnes of grain. This represents interest earnings of \$2.50 per tonne – a material, yet not large, market distortion. However, if the CWB were to handle 5 million tonnes under marketing choice, the interest earnings would result in a \$10 per tonne distortion – the distortion in certain pool accounts (e.g. feed barley) could be even greater if the interest earnings were not allocated evenly across all tonnes.

For this reason, the Wheat Growers recommend the accounts receivable under the CWB’s Credit Grain Sales Program (amounting to \$3.9 billion as at July 31, 2005) and the associated liabilities be transferred to a separate Crown Corporation. We also recommend the resulting interest earnings be allocated to individual western Canadian grain farmers in proportion to their production of wheat and barley. Further, we believe consideration should be given to allowing

each farmer the option to have their share of interest earnings converted into CWB shares. In our view, this is one way in which the CWB could privately raise a capital base, if that is the direction the CWB Board of Directors and its farmer owners wish to pursue.

The Wheat Growers recognize too that the CWB benefits from lower borrowing costs to finance its operations as a result of the government guarantee. While we acknowledge that this provides the CWB with a non-commercial advantage, we can accept this inequity in the short term, providing the CWB does not use this financing to acquire grain handling or processing assets in competition with the private sector. That said, the CWB should be free to acquire any assets it deems necessary to meet its business strategy, once the government guarantees are removed and it becomes a truly farmer-owned and controlled enterprise.

Similarly, in the short-term, we believe the federal government should continue to guarantee the initial payments of the CWB, until such time that it is satisfied the CWB can operate without this guarantee, or as required as part of any WTO commitments.

Objective #3

Develop the steps to implement the choice for farmers to market directly to any buyer or through the Canadian Wheat Board if they so wish.

The Wheat Growers wish to see full marketing choice implemented for wheat and barley as soon as possible, and certainly no later than August 1, 2007.

We also encourage the federal government to explore ways of providing farmers with some immediate relief from the CWB monopoly (for example, by authorizing the issuance of no-cost export permits on winter wheat, CPS wheat, hard white wheat, durum, barley and organics prior to August 1, 2007), so that prairie farmers can take advantage of profitable pricing opportunities that are now available only to farmers in Ontario or elsewhere in Canada.

The federal government should also remove any regulatory authority the CWB may have over grain handling, transportation, processing or export that might convey a commercial advantage to itself or to any other industry participant. However, the CWB should be free to enter into any voluntary commercial arrangement with farmers, grain companies, railways or other industry participants as part of its business strategy within a market choice environment.

Summary

The Wheat Growers look forward with keen anticipation to the dynamic wheat and barley marketplace that will evolve under a market choice environment. We urge the federal government to move forward on this initiative as quickly as possible so farmers can begin to profit from a more competitive marketplace, that includes a viable and effective Canadian Wheat Board.

We look forward to participating in a constructive meeting.