



# **POLICY SERIES**

FRONTIER CENTRE FOR PUBLIC POLICY • POLICY SERIES NO. 115 • JULY 2011



## **Removal of the Canadian Wheat Board Monopoly**

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### **Future Changes for Farmers and the Grain Industry**

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**By Milton Boyd**



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Date of First Issue: July 2011.

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ISSN 1491-78

MB: 203-2727 Portage Avenue,

FCPP Policy Series No. 115 • July 2011

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# Executive Summary

In this policy paper, Professor Boyd points out that the Canadian Wheat Board monopoly may be removed by 2012, and he looks ahead to resulting changes for farmers and industry, including the formation of a voluntary wheat board. He explains that a main reason for the removal of the Board monopoly is that today's farmers are larger, more independent, and more sophisticated, and that they want the freedom to make their own grain marketing decisions.

This is in contrast to over 70 years ago when the Board was put in place around the time of the great depression, and there were many smaller subsistence farmers who lacked grain marketing information and expertise. These smaller farmers were therefore relatively more comfortable with the Board marketing their grain, compared to many of today's larger, independent, and sophisticated farmers.

He explains that there will likely be some voids left by the loss of the Board monopoly, including loss of some export customer relationships, at least in the short-term. As well, there may be voids left from the Board no longer serving as an advocate for farmers on grain issues, regulatory issues, transportation issues, and other issues.

Professor Boyd also points out that regulators will need to remain vigilant, in order to ensure that there is sufficient competition among the private grain companies, and within the grain transportation sector, in the absence of the Board monopoly. He mentions that the grain industry appears relatively competitive at present. However, if the industry becomes less competitive in future, and the voluntary board is unable to add sufficient competition, then this

could bring rise to new grain cooperatives or other grain companies entering the industry.

Professor Boyd goes on to point out alternatives for the structure of a new voluntary wheat board, and some requirements it would need in order to be successful in the long-term, and some challenges it would likely face. He explains that more deregulation, new investment, innovation, and value added may occur in the absence of a Board monopoly would bring prosperity, and that this may add jobs to offset those jobs lost from removal of the Board monopoly. He also mentions that some jobs potentially lost from removal of the Board monopoly may be shifted to a voluntary board. Or, they could be absorbed by private grain companies taking on business formerly handled by the Board. Finally, he mentions that more grain may be traded on the ICE Futures Canada Exchange in Winnipeg, in the absence of a Board monopoly.

He concludes that the grain industry will continue to have cycles and ups and downs, and that farmers and the grain industry are resourceful and will adjust to changes. As world population and income continue to grow each year, world grain demand will steadily increase, and farmers and the grain industry will continue to prosper over the long-term. Farmer demographics will continue to change and farmers are likely to become larger, more independent, and more sophisticated. As a result, more Prairie farmers are likely to adjust sufficiently to a voluntary wheat board system and to the marketing of their own wheat, and many will prefer this, as they have already been marketing their own canola for many years with success.

# Why the Wheat Board Monopoly is Being Removed

## Large, Independent, and Sophisticated Farmers Wanting Freedom to Market Their Grain

This paper discusses factors that have led to the proposed removal of the Wheat Board's monopoly, and some resulting future changes facing farmers and the grain industry. The Canadian Wheat Board's monopoly (monopsony) over Western Canada's grain is proposed to end by around August, 2012, according to Gerry Ritz, the re-elected Federal Agriculture Minister for the majority Conservative Government. The Wheat Board has had a monopoly for wheat, barley, malt barley, and durum, which includes these grains for export, and also for human consumption within Canada. Historically, farmers have been required to sell these grains to the Board. However, many farmers are now wondering what will happen next with the removal of the Board monopoly, and how a transition to a voluntary board would take place under Minister Ritz's vision.

While the removal of the Board monopoly is surprising to many Canadians, it is not so surprising to those outside of Canada. This is because most all of the major grain marketing boards around the world have already disappeared (or have been privatized) over the last 20 years, including the most recent one, the Australian Wheat Board. To many around the world, the elimination of marketing board monopolies is simply a reflection of the changing times and increasing economic reforms throughout the world.

One of the Conservative's 2011 campaign promises was to change legislation so that farmers' would have a "marketing choice" in whether they sell their grain to the Board monopoly. Besides winning a majority in Parliament, the Conservatives with Harper and Ritz handily swept the farm vote in western Canada. Given this vote of confidence by farmers, the Conservatives are likely to repeal the *Wheat Board Act*, and replace it with legislation that will allow a voluntary wheat board, possibly in August 2012, assuming there are no complications or legal challenges. Also, the majority of provincial governments in Western Canada support the federal government's "marketing choice" position, including Saskatchewan, Alberta, and British Columbia, though the Manitoba government has opposed it, and may support a court challenge along with others.

**“...all of the major grain marketing boards around the world have already disappeared (or have been privatized) over the last 20 years...”**

However, farmers' opinions for and against the Wheat Board monopoly have historically been quite divided. Some pro-Board farmers believe there should be a farmer vote on whether to remove the Board monopoly. Conversely, Minister Ritz holds that there was no vote taken by farmers to implement the Wheat Board monopoly 70 years ago, and so no farmer vote is needed to remove it. Also, "marketing choice" farmers hold that any farmer should have a right to sell their wheat as they please, even if they are in a substantial minority. They argue that freedom of choice should be a basic right, as freedom of choice enhances anyone's welfare and utility, independent of any physical production or consumption outcomes, or monetary considerations.

Various Wheat Board unofficial surveys have claimed that a small majority of farmers favour keeping the wheat board monopoly. However, "marketing choice" farmers argue that those wanting to keep the monopoly are smaller farmers, and account for considerably less than half of wheat sales. They also argue that these surveys exclude farmers who would like to grow wheat, but do not grow wheat because of the Board monopoly, and also that these surveys also exclude some "marketing choice" farmers who abstain from participating in these Board sponsored surveys.

## Reasons for Maintaining the Board Monopoly

The pro-Board monopoly supporters argue many reasons for which the Board monopoly should be kept. They argue that it has been very successful in its main objective of selling the farmer's grain into the export and domestic market at a high price in a pool, and then returning the funds (average pooled price) to the farmer. The Board has operated as a government sanctioned non-profit monopoly, with mostly farmer directors. Pro-Board supporters argue that the Board has been very successful with a team of highly skilled employees, and has obtained higher prices for farmers and marketed their grain very well, just as OPEC has served oil exporters well. Also, they argue the Board has saved them time and effort in marketing their grain. They also point out that the Board has served as a voice and advocate for farmers on issues related to grain regulation, transportation, and other issues.

The Wheat Board was created by the *Canadian Wheat Board Act* in 1935 at a time when farms were very small, and many farmers were poorer and much less educated than today. Farmers had no television, and many were lacking timely grain market information. Less than fifty percent of prairie farmers had telephones. Many farmers felt that a large organization such as the Board monopoly could sell grain better than they could.

The Board was formed around the time of the Great Depression, and it served to help many isolated and subsistence farmers to band together through a monopoly. Farmers and government hoped to create countervailing power for farmers so that the large grain companies could not exploit farmers.

The Board also attempted to act as a monopolist on the world wheat market, and attempt to get farmers' higher prices. However, numerous opposing academic and industry studies sponsored by both pro-board and "marketing choice" parties over the years have failed to agree on whether farmers are better off or worse off with the Board monopoly (Carter, 1993; Carter and Loyns, 1996; Carter and Loyns, 1998; Kraft et al, 1996; Schmitz et al, 2005; Schmitz et al, 1997; Western Canadian Wheat Growers, 2006; Charlebois and Pedde, 2008; Informa Economics, 2008).

Pro-Board supporters also hold that that the Board has many benefits beyond getting a high average price for the farmer as outlined in a 2005 study (Price Waterhouse Coopers, 2005). For example, they hold that the Board benefits farmers by using the Port of Churchill. However, "marketing choice" supporters argue that private grain firms would use this port as well, if it is an efficient and cost effective shipping route. Pro-Board supporters also hold that the Board advocates for the "Canadian Brand." However, "marketing choice" supporters argue that private grain exporters that export Canadian grain also advocate for the Canadian brand, as it is in their best interest since they are selling Canadian grain. As well, the Canadian International Grains Institute and various grain trade groups also advocate for the Canadian brand.

Finally, pro-board supporters hold that five producer payment options added by the Board in 1998 and beyond give farmers increased flexibility (Price Waterhouse Coopers, 2005). However, "marketing choice" farmers argue that they could obtain most of these payment options without a Board monopoly, and can obtain a higher price without a Board monopoly.

## Reasons for Removing the Board Monopoly

"Marketing choice" farmers, those opposing a mandatory Wheat Board, argue that the Board has often got the farmer lower prices, has missed important market opportunities, and that farmers can market their grain better than the Board. They do not argue that the Board should be disbanded. They hold that it should simply be reformed into a voluntary board, no longer a monopoly. They argue that farmers should have a choice as to where they wish to sell to their grain.

They further argue that times have now changed, and compared to over 70 years ago when the Board was formed, farms today are much fewer and much larger, and roads and truck transportation are much better. Instead of having 300 acre farms as in the 1930's, many farms are now 3000-6000 acres or more. Many of today's farmers are very sophisticated, well educated, competent, internet savvy, entrepreneurial, independent, and have sales of over a \$1,000,000 annually. Many value the freedom to make their own grain marketing decisions, and think they can do better than the Board.

In addition, "marketing choice" farmers point out that state buying monopolies in various countries have been disappearing. Therefore, they claim it is no longer possible to gain efficiencies with a large national seller such as the Canadian Wheat Board monopoly selling to another large monopoly abroad. These state buying boards that have disappeared over the past 20 years or so, include the former Soviet Union, China, many countries in Eastern Europe, and more recently Australia. These Boards have disappeared mainly because farmers and consumers worldwide have wanted economic reforms, competition, and freedom to choose. As well, a number of World Trade Organization (WTO)

countries, including the U.S., have been pressuring Canada to eliminate the Wheat Board monopoly.

“Marketing choice” farmers also argue that other non-agricultural government sanctioned monopolies have been disbanded or privatized during economic reforms over the last 20 years. Some of these include airlines, telephones, and television. Just as the “marketing choice” farmers want choices about which airline to fly, which phone company to use, or which TV channel to watch, they also want the choice in where they sell their grain.

“Marketing choice” farmers point out that wheat milling technology has also changed, reducing the role that the Wheat Board has had in high protein wheat. Historically, the Wheat Board has focused on selling high protein hard red spring wheat. However, mills around the world today need less of this type of high quality wheat to produce the same flour quality they desire. This is partly reflected in the falling market share for Canadian wheat sales, from about 23% in 1995 to about 15% by 2010. “Marketing choice” farmers also argue that some farmers have been unhappy with the Board’s wheat marketing performance. And so they have taken considerable acres out of wheat production to plant more canola, peas, oats, and lentils, contributing to Canada’s lower share of world wheat sales.

Many “marketing choice” farmers see the *Wheat Board Act* as outdated government legislation that constrains their sophisticated farming operations. To illustrate their point, in 1996, about a dozen Western Canadian farmers decided to sell their wheat into the U.S., where prices were considerably higher at the time. They were fined \$7,500 each and sent to jail for violating Wheat Board legislation. One Alberta farmer faced a \$2,000 fine, or 62 days in jail, for donating a bushel of wheat to a Montana 4-H club.

Other constraints that “marketing choice” farmers argue against include the requirement for farmers to have permit numbers (books) and sign contracts in advance of when they will deliver their grain and receiving only an initial payment. The advance contract practice evolved from earlier times when quotas were used to determine how much grain a farmer could deliver and at which times. The initial payment practice means that farmers receive most of the payment when delivering their grain, but would have to wait a year or more to receive the full amount, and so lose interest on their funds. This is in contrast to selling non-Board grains such as canola, where the farmers receive the full payment immediately.

In general, “marketing choice” farmers argue that the wheat Board monopoly reduces their flexibility in selling their grain, and imposes undue rules and regulations. They argue that the Board’s contract procedure and slow sales at times can delay farmers’ delivery of grain and keep excess grain on farms, and so requires additional costly farm storage that would not otherwise be needed. As well, they argue that since Board grain handling charges agreed upon with grain elevators are higher than handling charges received by elevators for non-Board grains, then farmers receive less for Board grains. Further, “marketing choice” farmers argue that the Board monopoly pays elevators to store grain, and so excess grain may build in the system. Therefore they argue that this requires more grain elevators by firms, for which part of the additional cost may be passed back to farmers by grain firms through various ways. Given these possible concerns, “marketing choice” farmers have called for a voluntary board, rather than a monopoly.



# The Possible Structure of a New Voluntary Wheat Board and Eight Challenges It May Face

## Possible Structure of a New Voluntary Wheat Board

Under Agriculture Minister Ritz's vision, the Wheat Board monopoly would end, but the Board would still exist as a voluntary board (Migie et al, 2006). Its new organizational structure might continue as a voluntary exporting Board with pooling, and it might also make domestic sales.

A number of farmers would likely support this concept, at least in principle. One group are those farmers who would like an alternative to private firms. Some may give the voluntary board considerable business, while others give it less business. A second group of farmers who may support a voluntary board are those who strongly supported the Wheat Board monopoly, but now whose second choice is the voluntary board, rather than private grain firms. However, it would be difficult to predict the scale of farmer support and participation in a new voluntary board.

Some "marketing choice" farmers argue that in hindsight, if the Board monopoly had been converted to a voluntary board 20-30 years ago or so, it may have had considerably more farmer support from the "marketing choice" farmers than in recent years. This is because an increasing number of "marketing choice" farmers became frustrated with the Board's monopoly and operation over the past 20-30 years or so, and a number of them may now prefer to deal instead with the private companies.

A voluntary board could likely be set up as a cooperative, a new generation coopera-

tive or a farmer run corporation with shares held by farmers. It could attempt to export farmers' grain in competition with private grain companies. However, it may face challenges in the long-term as a voluntary board, whatever organization form it would take<sup>1</sup> (See Endnotes, pg. 19).

In terms of jobs, a voluntary board would likely be downsized significantly from the current 400 or so Wheat Board employees. This is because many farmers may instead wish to sell their grain to the private grain companies, as they now do for their canola and other non-Board crops. However, a number of the jobs lost from the Board monopoly may go to the voluntary board, and also to private grain companies that would handle some of the former Board's business. Just as creation of the Board in the 1930's shifted some jobs away from the private grain firms, removal of the Board monopoly in 2012 would shift some jobs back to the private grain firms.

The Conservative government is likely to provide some financial resources to a voluntary board in order to assist it in getting started. The government would likely transfer some of the current Board's existing assets to the voluntary board, though the amount is uncertain (Migie et al., 2006).

Farmers might then receive some free shares in the voluntary board. The government may also set a transition period for a number of years under which it would financially assist or guarantee financing and operating credit for the voluntary board.

Following this initial transition period of a few years, the government would likely plan completely to phase out its involvement, and have the Board operate quite similar to any other private grain company. This would avoid complaints of unfair competition by private sector competitors.

## Governance of a Voluntary Board

Proper governance would also be needed for a voluntary board in terms of voting structure. Assuming it was a farmer owned cooperative or farmer shareholder company, farmers would need to be given votes in proportion to their business volume or number of shares they held in the voluntary board, to elect directors (who would choose the CEO), and vote on various company major issues. Lack of proportional share ownership was one reason that some of the past large grain cooperatives grew inefficient and failed, as they were historically based on “equality” of one vote per member. Larger farmers sometimes felt that their interests were being superseded by many smaller farmers with less business experience and less volume of business.

As a result, some of the farmer directors who were elected to cooperative boards had struggled to select sound management. This partially contributed to some large farmers abandoning the cooperatives and taking their business to private companies, further leading to demise of some grain cooperatives in the past.

The lack of voting in proportion to volume of business is another area where most “marketing choice” farmers believe the current Wheat Board monopoly governance needs improvement. They would like to see the voluntary board have farmers vote in proportion to their volume of business or number of shares held.

Also, the current Wheat Board monopoly has farmers only elect 10 of the 15 directors, and government appoints the CEO, rather than directors appointing the CEO. In order for a voluntary wheat board to avoid difficulties in the long-term, it would need to operate as a farmer owned private business or cooperative. It would need to be responsible directly to the needs of farmer shareholders. Resetting the organizational structure and governance, and evaluating directors and management would be needed for a voluntary board to succeed. However, a voluntary board would also encounter a number of challenges.

## Eight Challenges a New Voluntary Board May Face

There are a number of challenges that a new voluntary board (non-monopoly) may face in the long-term. First, a voluntary board might try to function as an average price pool for wheat, where farmers could sell their wheat throughout the year, and receive an average price over the year. However, this may have limited interest for farmers for two reasons. One reason is that farmers have been marketing non-Board crops such as canola for many years, and there has been quite limited demand for pooling on a large scale for many of these non-Board crops.

If a farmer wants an average pool price, they can simply spread their grain sales throughout the year to get an average pool price, and they may be able to do this for a lower cost than through a voluntary board. Another reason for lack of interest in a pool is that the voluntary board would no longer have the claim that it could use monopoly power to charge other countries higher prices and get the farmer a high pooled price. Farmers may also use other alternatives besides pooling to manage their risk, such as futures contracts and forward contracts.

Second, a voluntary board may face challenges in the long-term because it may no longer be allowed to borrow at the lower Federal Government borrowing interest rate. Doing so would likely be considered unfair to private sector competing grain companies. Therefore, the past favourable borrowing rate for the voluntary board may be eliminated, or scaled back over the years.

Third, a voluntary board would have no assets such as grain elevators or port export facilities, unless the government transferred assets from the Board monopoly, or provided financial assistance. And any financial assistance may have to be limited or scaled back in time, as the private sector may be reluctant to see the government financing any new purchases of voluntary board assets. In addition, there is currently ample capacity in grain handling, and so a willing seller of grain elevators or port facilities would be needed, rather than a voluntary board constructing new excess capacity. So without substantial assets, one other alternative for a voluntary board may be to function as a broker of farmers' grain for export. However, functioning as a grain broker may be challenging, as there are many well established grain brokers for non-board grains that may wish to handle wheat in future. Also, it is not known whether any of the large existing grain firms would be willing to allow the voluntary board convenient to access its elevators, port facilities, ships, etc. One other alternative is for the government attempt to allow the voluntary board favourable access to competing firms facilities (assets), at negotiated rates. However, competitors may feel that this would be unfair.

Fourth, a voluntary board may face challenges because it may lack some of the necessary management and entrepreneurial skill set needed to compete against the private sector. With its monopoly, the Board has not had much direct experience

in competing to buy farmers' grain. Also, senior board employees with valuable overseas sales contacts might be hired away by the private sector, leaving the voluntary board challenged. Also, hiring some these key board employees away might be more efficient for the private sector for the purpose of accessing some past Board overseas customers than making business and export alliances with a voluntary board.

Fifth, a voluntary board may face challenges because it may have limited access to private capital, in attempting to either issue shares or borrow funds. This is because potential investors such as farmers, or lenders may view it as somewhat of a risky venture. Also, many farmers in Saskatchewan had adverse experience with Saskatchewan Pool, the former largest grain cooperative in Western Canada. Farmers holding shares saw their share price drop from over \$20 in 1998 to less than 50 cents by 2003 and near bankruptcy. So these and some other farmers may be reluctant to hold grain company shares or bonds again, for fear of possible large losses.

Sixth, a federal government guarantee covering losses for the voluntary board for a few years would likely be discontinued or scaled back over time. This loss guarantee would likely have to end because private sector competitors would likely see a voluntary board guarantee as unfair, and it could raise WTO trade and subsidy issues in future.

Seventh, a voluntary board may face challenges in competing against a highly efficient private grain sector. For example, earlier in the 1990's and early 2000's, many of the four big grain cooperatives in Western Canada were no longer efficient enough and sufficiently capitalized to compete with the private grain sector.

They ended up consolidating into one large private company today, Viterra.

These former grain co-ops included Saskatchewan Pool, Alberta Pool, Manitoba Pool, and United Grain Growers (UGG). Given that these large grain firms did not survive independently, it may be challenging for a voluntary board to compete if the industry remains quite competitive, especially if the voluntary board is undercapitalized.

Eighth, a substantial change in culture and management would be required, to go from the monopoly Board to a new voluntary board, and this would be a challenge. A voluntary board would have to adjust to getting “voluntary” farmer customers in the market place, and earning customer loyalty, and ensuring a customer friendly culture. It would have to especially reach out to “marketing choice” farmers to gain their business. This is in contrast to the current Board which has a regulated monopoly and relatively “captive” farmer customers. Also, the existing Board directors and management would also need to be both willing and capable of supporting a new culture and business model for a voluntary board to be successful, otherwise changes would be needed.

Other cultural adjustments needed would include those typically required by government sanctioned monopolies as they transition to competition in private sector, since they have not faced intense competition before. Some of these cultural adjustments include adopting a sufficiently lower cost structure and higher efficiency in order to compete in the private sector. Also, adjusting to profit and loss accounting culture would be needed, as losses would no longer be covered by government, and could result in the need for raising additional capital to cover losses.

As an example of possible challenges, the Australian wheat board was privatized in 1999 (later known as AWB).

Initially it was received with optimism by farmers, but later faced a number of losses, and losses were no longer covered by government. The relatively large losses, some caused by management mistakes, required additional capital to be raised. By 2010 losses had accumulated substantially, and so share price had fallen by over 80 percent, from over \$6 in 2006, to less than \$1 in 2010. As a result, AWB was taken over by the Canadian fertilizer firm Agrium, which kept the AWB farm input supply business and then sold off various grain related businesses to other firms, such as Cargill.

This demise of the Australian Wheat Board illustrates how a privatized grain board or voluntary board may have trouble adjusting to private sector culture and operation. Other examples of privatization involving changes in culture include Air Canada and its resulting bankruptcy protection filing in 1993, and near bankruptcy filing again in 2009. A portion of management and employees had become entrenched under their earlier culture of a quasi-monopoly with captive customers. They faced difficulty in adjusting to the customer centered culture and a lower cost structure needed in the intensely competitive private sector, when faced with competitors such as Westjet.

Overall, some main questions regarding whether the voluntary board can succeed include:

- i) Is the voluntary board capable and willing to compete in the private sector culture?
- ii) Is a suitable business model being selected?
- iii) Is the voluntary board able to reach out to potential “marketing choice” farmers, who may represent half or more of the production of wheat, barley, and durum in Western Canada?

## Future Scenarios For a Voluntary Board Regarding Competition in the Grain Industry

A few different future scenarios could unfold regarding competition in the grain industry, following creation of a voluntary board. One future scenario is that if the private grain sector remains competitive and treating the farmer fairly, then it may be difficult for a voluntary board to compete. The other side of this issue is that if the private grain firms are competing with each other, then there is less need for a voluntary board.

A second future scenario is if the private grain sector is not competitive and farmers feel unfairly treated. In this case there would be more need for a voluntary board, and it may face less challenges. But under this scenario, the private grain firms would be making substantial profits, and so new cooperatives or other private firms may also have incentive to move into the industry and compete. This second scenario raises the issue that regulators should remain vigilant, and ensure that there is sufficient competition throughout the grain industry from elevator to port, including the grain transportation sector. While a voluntary board would face challenges in at least some areas, removing the Board monopoly could bring about more innovation, investment, and value added, according to “marketing choice” farmers.

***This second scenario raises the issue that regulators should remain vigilant, and ensure that there is sufficient competition throughout the grain industry from elevator to port, including the grain transportation sector.***

# More Deregulation, New Investment, Innovation, and Value Added Processing May Occur Without the Wheat Board Monopoly

## New Wheat Varieties May be Grown

“Marketing choice” farmers argue that with the disappearance of the Wheat Board monopoly, some new changes and opportunities may occur in the industry. There may be more deregulation of the wheat industry, and this may bring some new investment and research, and create jobs. It would occur through private sector investment in new wheat varieties, similar to those mostly grown in the U.S., that are higher yielding, lower in protein, and may be more profitable. This is in contrast to the relatively fewer varieties now favoured by the Board, which are mostly higher in protein and lower yielding.

New genetically modified wheat may be developed and grown at some point as is the case for canola. Up until now, the Board monopoly has been opposed to genetically modified wheat fearing rejection by overseas customers. However, in future years genetically modified wheat may be grown in Canada, if farmers and regulators so choose, and wheat consumers in Canada and overseas find it acceptable.

## Canola Industry Prospered Without a Wheat Board... and Wheat May Also Prosper

Pro-Wheat Board farmers in the past have argued that the wheat industry in Western Canada would be better off with the Board’s monopoly.

However, “marketing choice” farmers have argued that the canola industry has had no monopoly, and has grown over the past 40 years from very small to having a production value greater than wheat in some years. They argue that it has had a more innovative and larger valued added processing industry than wheat. They also argue that wheat processing and value added industries will expand if the Wheat Board monopoly ended.

They point out that just as various canola associations have emerged, a similar association would likely arise in place of the Wheat Board (e.g. wheat council). This organization would attempt to ensure that the industry is prosperous, research focused, properly regulated, and competitive. Many agree that organizations such as the Canadian International Grains Institute have done a very good job of promoting Canadian wheat and other grains in the past. A large portion of their funding has come from the Wheat Board and the federal government. Without a monopoly board, the Canadian International Grains Institute might be funded instead by a new wheat association, along with some federal support as in the past.

Some new specialty varieties of wheat may arise, and also some entrepreneurs may start up small specialty flour mills, and pasta plants. A specialty flour mill is relatively simple and easier to start, requiring a smaller investment than a microbrewery or canola crushing plant.

### **Pasta Plants, Flour Mills, and More Value Added May Appear**

Currently, farmers are prohibited from selling their wheat or barley for human consumption directly to businesses or consumers. They may only sell it to the Wheat Board. Flour millers, malting companies, and pasta makers must purchase grain from the Board under specific rules, which some small processors have found difficult. Therefore, “marketing choice” farmers have argued that some pasta makers have located across the border in North Dakota instead of in Western Canada, and are creating jobs there instead of in Western Canada. But, with the removal of the Board monopoly, it may be considerably easier for these processors to start up in Canada, and milling firms could simply purchase wheat directly from the farmer of their choice, and at whatever price they could negotiate—as is the case with canola. This value added could create many jobs, and serve to offset those lost by the removal of the Board monopoly.

### **More Grain May be Traded on ICE Futures Canada Exchange**

The ICE Futures Canada (Intercontinental Exchange, formerly the Winnipeg Commodity Exchange) has mentioned the possibility of adding a durum futures contract, as durum would no longer be under the Board monopoly. It may also try listing other grain contracts as well for grains that will be removed from the monopoly. This increased trading would create more jobs. More trading would not be surprising, since in the 1920’s before the Wheat Board was established, Winnipeg was the most important wheat trading market in the world.

Also, some “marketing choice” farmers argue that the Board’s arbitrary actions in the grain handling system has unduly affected non-Board grains such as canola, and the canola futures market. They also argue that higher handling charges received by elevators for Board grains can favour these Board grains over non-Board grains in the system. The Board’s arbitrary actions they argue can at times affect non-board grains regarding storage space in terminals, delivery on futures markets, basis levels, and basis stability.

**“...some “marketing choice” farmers argue that the Board’s arbitrary actions in the grain handling system has unduly affected non-Board grains such as canola, and the canola futures market.”**

# Canada-U.S. Wheat Trade Challenges and Smaller Grain Company Challenges... Without the Wheat Board Monopoly

## Possible Canada-U.S. Wheat Trade Wars

Some international grain trade problems may occur with the end of the Wheat Board monopoly. For example, farmers will likely sell more of their wheat into the U.S., which the Board had mostly avoided in times of wheat surplus in order to prevent wheat trade wars. But if too many farmers attempt to sell their grain into the U.S. in years of excess supplies, it could provoke wheat trade wars similar to the Canada-U.S. hog and cattle trade wars. However, in Canada's defence, the U.S. has been pressuring Canada to remove the Wheat Board monopoly.

Therefore, when Canada acts on it, it would be difficult for the U.S. to file complaints about any additional Canadian wheat flowing into the U.S., as the U.S. would have been fully aware of it when they advocated for removal of the Board. Also, pro-Board farmers have argued that selling more wheat into the U.S. would depress U.S. prices.

However, "marketing choice" farmers argue that Canadian wheat going into the U.S. would not affect U.S. price that much, as U.S. price is linked to world price. Canadian wheat exports to the U.S. would mostly cause more U.S. wheat to be exported to other countries, possibly to some markets that Canadian farmers had given up, when exporting their wheat into the U.S.

In other words, Canadian wheat pushing into the U.S. could mostly push out U.S. wheat to export markets, possibly to some markets that Canada did not export to when it chose to export instead to the U.S.

## Some Smaller Grain Handling Firms May Struggle under Absence of Board Monopoly

Small grain handling firms have benefited from the higher fixed grain handling charges negotiated by the Wheat Board for firms that handle Board grains. However, these firms may struggle without the monopoly and the loss of higher fixed handling charges. These smaller firms may not have the economies of size that are needed to compete in a non-monopoly world with more deregulation and lower handling charges. Some may have to find smaller niche market roles, may disappear, or may be bought out by larger firms. However, some of the smaller firms may be able to cooperate with a voluntary board. Or, if a voluntary board has sufficient capital, then it may be able to acquire and consolidate some of these smaller grain handling firms.



## Summary

The bulk of today's Western Canadian farmers who produce most of the grain are large, businesslike, entrepreneurial, and sophisticated—much different than those in the 1930s and at the birth of the Canadian Wheat Board. "Marketing choice" farmers argue that they can often now market their grain better than the Board. These arguments spurred the Conservative government toward removing the Wheat Board monopoly.

"Marketing choice" farmers also argue that just as they do not want a monopoly where they must buy their inputs such as tractors, fertilizer, and chemicals, they do not want a monopoly to tell them where they must sell their wheat. They argue that they that have done well with canola having no monopoly Board, and the same would be true for wheat. However, pro-Wheat Board supporters hold that it has done an excellent job of marketing farmers' grain.

In the end, the Board monopoly will likely be removed, possibly as soon as August 2012, barring any legal challenges, and would be replaced by a voluntary board, though the timing and details remain unknown.

The removal of the Board monopoly and loss of some of its associated advantages, potential loss of some export customers, and adjustment to a new voluntary board system, is likely to be challenging.

However, there are also likely many benefits from the change to a "marketing choice" voluntary board such as innovation, new valued added industries, additional flexibility, and choices for farmers in marketing their grain. The grain industry will have some ups and downs, but farmers and the grain industry are very resourceful and will adjust to changes. As world population and income continues to grow each year, world grain demand will steadily increase, and farmers and the grain industry in Western Canada will continue to prosper over the long-term. Farmer demographics will continue to change and farmers are likely to become larger, more independent, and more sophisticated. As a result, more Prairie farmers are likely to adjust sufficiently to a voluntary wheat board system and to the marketing of their own wheat, and many will prefer this, as they have been marketing their own canola for many years with success.

***As world population and income continues to grow each year, world grain demand will steadily increase, and farmers and the grain industry in Western Canada will continue to prosper over the long-term.***

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# Endnotes

## 1. Three Possible Voluntary Board Models

A voluntary board could be organized according to number of business models (Migie et al., 2006; JRG Consulting Group, 2006).

**First, it could be a full-fledged farmer grain company (with assets),** or a cooperative. It would be owned by farmers, possibly with a personal investment in it. But it would likely need to have around 10-20% or more of the Western Canada grain handling market in order to have sufficient economies of scale and low enough costs to compete with private sector firms. However, it may have trouble raising enough capital to obtain sufficient assets, though it would likely inherit some assets from the board. The three prairie pool cooperatives and UGG had tried this model for many years, and all failed to remain as independent grain firms, and so it is unclear if this model would succeed for a voluntary board.

**A second model, a full fledged grain exporter (with assets)** is another possibility for the voluntary board. However, about 15 private grain firms are accredited exporters of grain and engaged by the Wheat Board monopoly to export grain, and so a grain exporter that is a voluntary board may face considerable competition. A number of the largest exporters already have substantial assets, including ships and port access, and inland elevators, and are very experienced in exporting. Currently the accredited exporters account for up to half of all Board grains exported, according to some sources (Informa Economics, 2008). Therefore a voluntary board may find it difficult to compete against the existing exporters, especially if it is unable to acquire enough assets, or make suitable agreements to access the assets of other firms (e.g. elevators, port terminals, ships).

**A third model, a grain broker (without assets),** is another possible approach for a voluntary board. Grain could be purchased from farmers, from grain companies, and resold to other grain companies, or exported. However, it is unclear how well the grain broker model without assets would work, when competing against full fledged grain companies with ample assets both at port and inland. Also, it is unclear how much additional demand there would be for a large grain broker, as there are already a number of experienced grain brokers in operation in non-Board grains, and profit margins may be relatively thin. It is also unclear what advantage a voluntary board grain broker would have over existing grain brokers in dealing with farmers, who already have farmer customer contacts and loyalty through non-board grains. (One similar alternative is a grain reseller without assets, which is similar to a grain broker, except that a grain reseller takes ownership of the grain while a broker does not). However, given the above three models, each with its possible limitations, it will take considerable analysis and thought to determine which model may be most likely to succeed for a voluntary board.

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