Show Me the Money!

Is the CWB really a benefit to barley farmers?

John De Pape February 1, 2007

Frontier Centre for Public Policy

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

NFU Estimates

- $804.1 million
  - Wheat “premiums” $212 million
  - Barley “premiums” $57.6 million
  - Tendering etc $43.3 million
  - Capped freight rates $225.2 million
  - Level of service complaint $3 million
  - Net interest earnings $68.5 million
  - GM wheat – market loss $84.6 million
  - GM wheat – agronomics, fusarium ,etc $80.0 million
  - Terminal blending $30 million
  - Producer cars, market development, etc ???

The Canadian Wheat Board and Barley Marketing

Schmitz, Schmitz & Gray

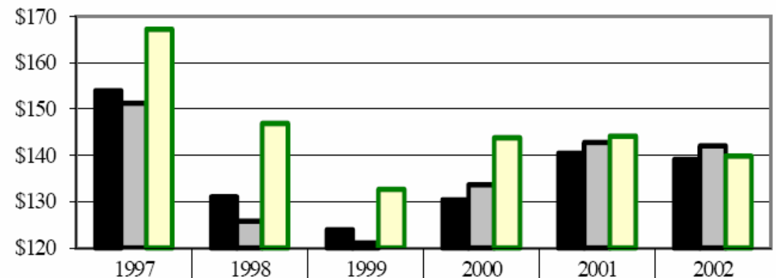
You've got to be kidding….

U of S Study

- What are premiums?
  – Better price than other sellers/origins?
  – Better price than "multiple sellers"?
  – Based on quality? Service?
- $59 million benefit
  – Price discrimination or reflection of different markets?
  – Same methodology would give same results on canola – a multiple seller market

Price Discrimination

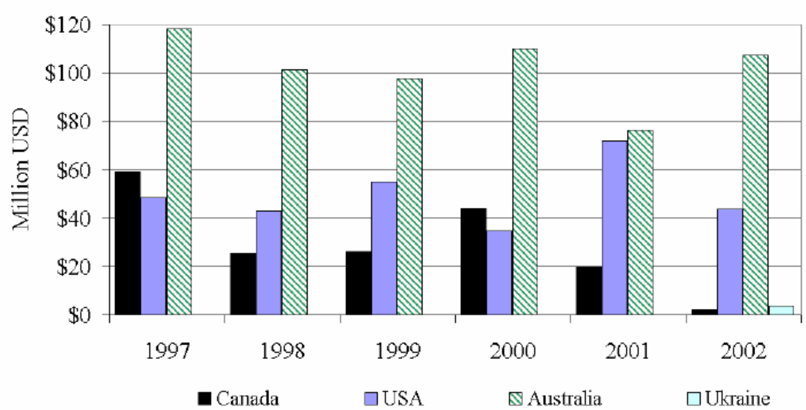
Chart 5.3 Feed Barley Price Comparisons Basis CIF Japan
(Calendar year averages, in US dollars per tonne)



	1997	1998	1999	2000	2001	2002
Canada	154.0	131.0	124.0	130.4	140.5	139.1
US	151.2	125.8	121.2	133.6	142.9	142.1
Australia	167.2	147.0	132.7	143.8	144.2	139.9

Price Discrimination

Chart 5.5 Total Japanese Feed Barley Sales Values by Supplier

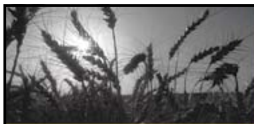


Price Discrimination

- *“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?

Price Discrimination

- U of S (and the CWB) state that multiple sellers will drive the price lower, stripping the premiums away
  - The Law of One Price
- They fail to recognize that the multiple **sellers are also buyers**
  - Competition disciplines the traders
  - What disciplines the CWB?



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?
    - Algeria?
    - South Korea?
- Economic models cannot – do not – factor in all the intricacies of the global marketplace.
- U of S study proves nothing regarding the CWB’s market power

Price Discrimination

- The only market where the CWB gets “premiums” is the domestic malt market for Canadian brewers
  - Total sales about 365,000 tonnes annually
  - Premium needed to get to \$59 million = \$162 / tonne.
  - More like \$50 per tonne = \$18 million
  - Is this really “price discrimination”? Or are the Canadian maltsters just “out of position”?

PwC: Economic Impact of the CWB

You've got to be kidding….

PwC Study

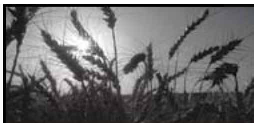
- $1.6 billion in economic activity due to the CWB
  - Wouldn't this happen even without the CWB
  - Took the CWB-supported studies showing "premiums" as fact.
  - *"Due to the stability of the CWB and its payment programs some farmers have benefited from greater credit worthiness for their operations. In many cases, banks, credit unions and other financial institutions have been more willing to lend to farmers when the farmers produce Board grains."*

CWB Marketing Performance

Isn’t this what really matters?

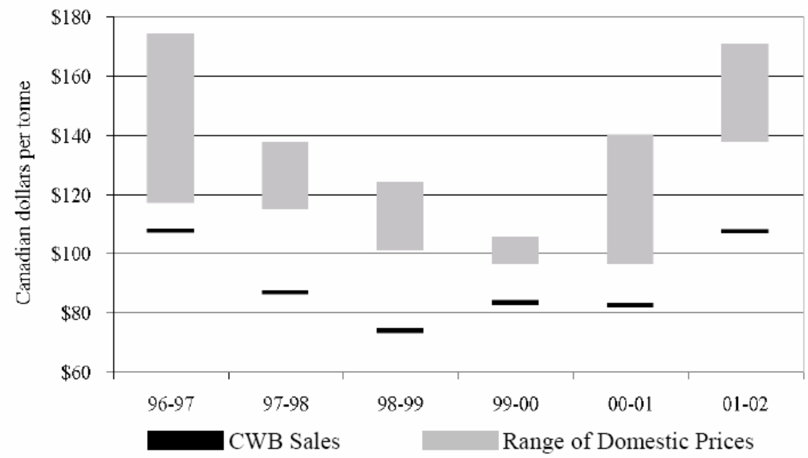
Barley Markets

	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%



Sparks Study

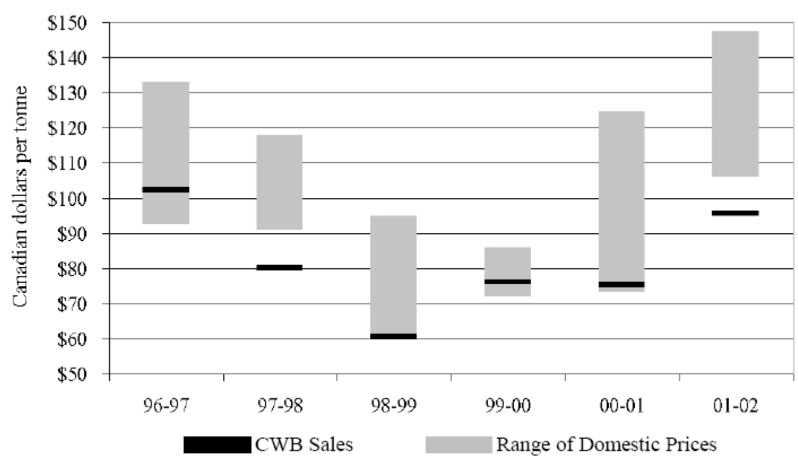
Chart 5.6 CWB Sales vs Domestic Prices, Basis Red Deer, Alberta



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

Sparks Study

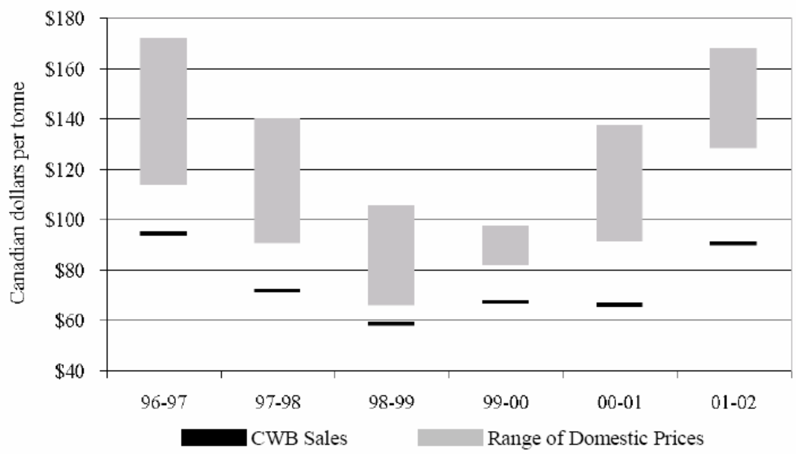
Chart 5.7 CWB Sales vs Domestic Prices, Basis Saskatoon, Saskatchewan



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).

Market Signals

CWB: *Arbitrage destroys the possibility of market premiums.*

	Feed Barley (US no. 2)		Malt Barley (2-Row)	
Instore Vancouver Value - Middle of Range	223.2		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

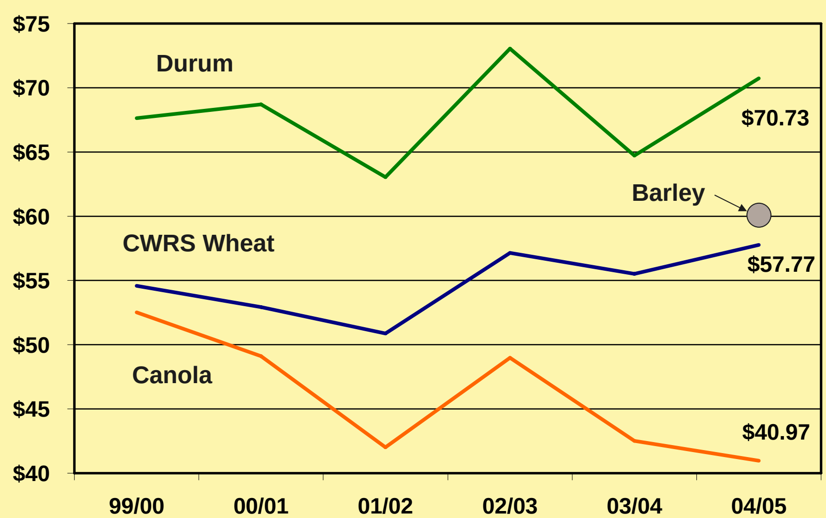
Middle of range, after deducting Freight, Elevation, and Cleaning

	Feed Barley (No. 1 CW) Value	Feed Barley (No. 1 CW) CWB PRO	Malt Barley (2-Row) Value	Malt Barley (2-Row) CWB PRO
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 Question of Costs

I think this matters too…

Cost Comparison



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?

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.

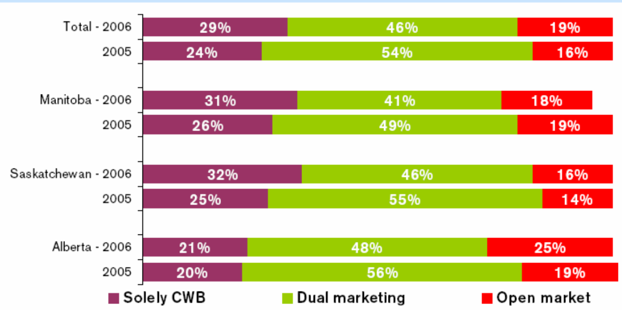
Source: CWB website

2006 CWB Annual Producer Survey

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.



My questions

- So here are my questions for CWB supporters:

  1.....In your opinion, does the CWB perform well in the feed barley market? If so, explain. If not, explain.

  2.....In your opinion, does the CWB perform well in the malt barley market? If so, explain. If not, explain.

  3.....If we assume that you're right that the CWB couldn't operate successfully in a dual market, is it safe to say that the CWB can't be effective in the barley market?

  4.....And if so, why keep barley under the CWB?

My questions

- 5..... Will the domestic feed market be better or worse with marketing choice?
- 6..... Will the export feed market be better or worse with improved market signals, competition and, marketing choice?
- 7.....Will the domestic malt barley market be better be better or worse with improved market signals, competition and, marketing choice?
- 8..... Will the export malt barley market be better be better or worse with improved market signals, competition and, marketing choice?

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