

Under attack



The Canadian Wheat Board is in an intense battle to maintain its wheat and barley trading monopoly

by David McKee

The Canadian prairie provinces of Alberta, Saskatchewan and Manitoba have been the source of 15% of all wheat, 55% of durum wheat and 10% of barley in world trade during the last 10 years. A single organization, the Canadian Wheat Board (CWB), is the sole supplier of these grains and can thus lay claim to being the biggest international seller of wheat and barley.

But like its counterpart, the Australian Wheat Board (AWB), the CWB has been under increasing attack, both domestically and internationally, as a single-desk monopolist. The pressure on the CWB has increased since Canada's ruling Conservative Party came to power at the beginning of 2006 on a platform that included granting marketing choice to western Canadian grain growers (i.e., removing the legal obligation that they sell their entire non-feed wheat and barley production to the CWB).

To date, Prime Minister Stephen Harper has not made good on his campaign promise, but it has not been for lack of trying. The Conservative party, though exercising executive power, does not enjoy a majority in parliament and would need the support of one of the two main opposition parties to put through the necessary legislation. Both of these parties oppose elimination of the single desk.

In place of lawmaking, the government in Ottawa has used other tactics such as firing of the CWB's chief executive officer and placing a gag order on

A wheat field in southern Saskatchewan, Canada.
Photos courtesy of Jerry Mayo.

the organization that prevents it from using any of its funds to lobby for continuation of the single desk.

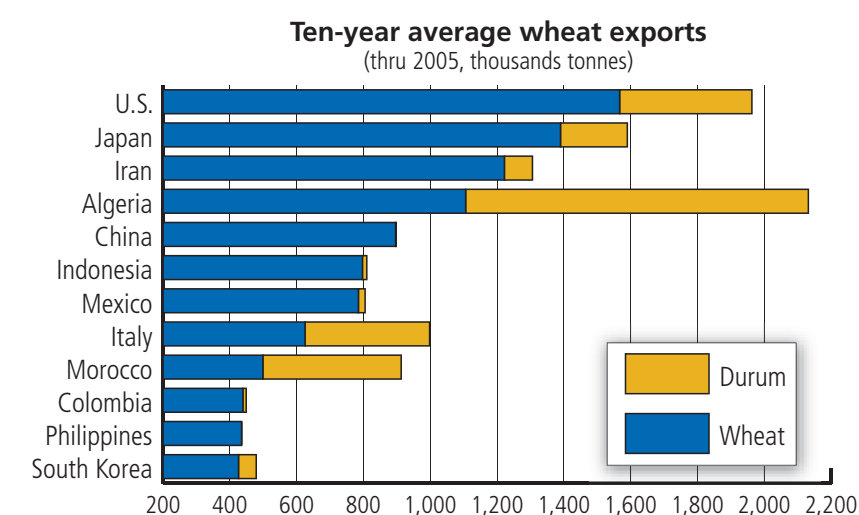
The latest development in the highly politicized struggle is a vote by Prairie farmers on marketing choice for barley. Voting began Feb. 7 and the deadline was March 13. The results of this government-called plebiscite were scheduled to be announced by the end of March. If the vote was clearly in favor of the choice option, the government may proceed to administratively terminate the single desk for barley on Aug. 1, the start of the 2007-08 marketing year, by which time grain growers normally commit their harvest. The government can argue that the Canadian Wheat Board Act gives such administrative authority provided a majority of farmers express support for the change, but there are sure to be all sorts of legal challenges.

With the ballot issue limited to barley, a majority of farmers may vote for marketing choice, or a dual marketing system as it is called. Barley represents only 12% of the grain handled by the CWB, so farmers have less at stake. Furthermore, farmers already are in the habit of selling their feed barley and feed wheat on the open market, while domestic wheat sales are still under the CWB monopoly.

Proponents of reform hope the single desk for wheat can then be dismantled by Aug. 1, 2008, either based on a subsequent farmer's plebiscite, this time on wheat, or thanks to new parliamentary elections yielding a Conservative Party majority.

PROS AND CONS

Both sides provide compelling arguments for their positions. The federal government's case is true to its pro-business orientation and is based on classic free trade ideology. This makes sense for a country whose economy thrives on access to overseas markets. The Conservatives see no need for a government-owned company, which was founded in the Great Depression of the 1930s and received its monopoly powers dur-



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ing World War II, to market Canada's grain when private companies could do it more efficiently. The mere existence of the CWB as a state trading enterprise has made Canada vulnerable to repeated trade actions from the U.S., including a ban on some wheat exports from Canada to the U.S. that was lifted at the beginning of 2006.

It is unclear whether a majority of western Canadian grain growers want to see the CWB monopoly ended. Those near the U.S. generally favor marketing choice, since they would like the option to truck their grain to elevators south of the border when prices are better there.

Canadian farmers are "held hostage" by an expensive and inefficient transportation system.

Farmers in Alberta generally tend to favor marketing choice more than their brethren in the two Prairie states further east. As noted, they plant more barley and are already used to selling on their own. Being closer to the Pacific Ocean perhaps makes them more open to the options that would be presented by freer trade. In more remote areas of Saskatchewan and Manitoba, where mainly wheat is grown, support for the CWB is stronger among farmers. This is reflected in the makeup of the two

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Under the CWB's single desk, grain growers must rely on the Canadian railroads to get their grain to ocean ports. But there is a long history of railroad strikes, including some this year, that have caused congestion and delays, making farmers wish for the option to deliver grain to northern-tier elevators in the U.S. that have lower transportation costs to port. Opponents of the single desk often argue that western

provincial governments that support the single desk, while Alberta's government opposes it.

The CWB argues that its sole mission is to serve the interests of western Canadian grain growers. Its goal is to generate the highest possible return in domestic and international markets on the sale of their wheat and barley. All revenues, after subtracting marketing costs, are distributed to the farmers at

the end of the year. There are no retained earnings.

The CWB, based in Winnipeg, Manitoba, has a lean staff of about 400 to manage an average turnover of nearly 20 million tonnes of grain per year. It does

tically and to 70 countries, the CWB's special status presents certain advantages to Canadian farmers. One is that its borrowings are guaranteed by the Canadian government, ensuring lowest possible interest rates to finance grain

The CWB also enjoys government guarantees of overseas credit risk, freeing it of the need to write off bad debt. The CWB carries on its books about U.S.\$2.5 billion of sovereign debt from a group of eight nations that have rescheduled their payments over five- to 25-year terms through the Paris Club. These long-term credits are a major source of income for the CWB, since it collects interest payments while obtaining funding at lower rates. However, this income has fallen sharply from C\$92 million (U.S.\$75 million) five years ago to C\$36 million in 2005-06, as some countries have been rapidly paying down this old debt. Russia alone has made prepayments of C\$800 million. Over the same period, administrative costs have risen from C\$50 million to C\$70 million.

It is such underwriting by the government that is cited as an unfair trade practice in the negotiations for liberal-

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this by owning few assets beyond its own office buildings and computer systems, and by contracting with transport and grain storage companies to handle the entire crop.

In marketing Canadian grain domes-

inventories and to carry receivables. Another is that the initial payment they receive from the CWB, normally about 75% of the total payment, is guaranteed by the government, even if world grain markets suddenly collapse.

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ized trade in agriculture products at the struggling Doha Round of the World Trade Organization. In an attempt to revive the talks, both the U.S. and E.U. have put on the table offers to dramatically reduce their farm subsidies, but on the condition that both Canada and Aus-

tralia terminate their single desks.

International pressures aside, the current government says it seeks reform of the single desk structure for purely domestic reasons, the most important being to give farmers the freedom to sell their grain in any way they please by

putting in place a dual marketing structure. Farmers would have the option to either commit their grain to the CWB operated pools, or they could choose to sell to traders outside the CWB system.

The CWB counters that a dual mar-

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keting system is a false concept, since, without its single desk powers, the CWB could not exist as the kind of entity it is today, selling grains “on behalf of” Canadian grain growers.

LIFE AFTER THE SINGLE DESK

Despite its network of grain suppliers and overseas customers, the CWB would have to overcome several major obstacles to convert itself into a viable grain trading company.

Perhaps its biggest drawback is its lack of grain storage and transportation assets. In a free market, it would suddenly have to start competing with the same grain companies with whom it contracts for services now.

Another problem is the lack of a capital base. Through 70 years of existence,

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the CWB has returned all of its trading profits to its farmer-constituents year in and year out, and has only a small amount of equity capital compared to the revenues it generates. Government guarantees on borrowing and overseas receivables means the CWB can operate on nearly 100% debt financing, but reform of the system would also mean withdrawal of these guarantees and require it to raise nearly C\$3 billion in operating funds through some other means.

Though there are some parallels between the CWB and AWB, the Australian organization is more dependent on its single desk. At its founding, the CWB was modeled after the AWB, but it has remained purely a state trading enterprise. The AWB has evolved a couple of stages beyond, having first made the transition to a farmer-owned

corporation about 10 years ago, followed by a public share offering in 2002. These two moves provided the legal and financial basis for the AWB to diversify horizontally and vertically, such that the bulk of its revenues come from operations other than management of Australia’s wheat pool. These include the supply of all kinds of inputs

and services to farmers, and even the trading of non-Australian grains.

The most important reform of the CWB was in 1998, when farmers were granted the right to elect 10 of the 15 seats on the CWB board of directors. The remaining five, including the chief executive officer, are selected in Ottawa. Previously the CWB functioned as an agent of the

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Crown, with all government-appointed commissioners.

Prior to the accession of the Conservative Party, the CWB had its own plans to transform itself somewhat along the lines of the AWB, in order to move into higher-margin processed products, so that farmers could share in the profits of some of the value-added activities that international grain companies often specialize in. However, just as the AWB depended on the single desk as a basis for its public share offering and entry into synergistic areas, the CWB's retention of its monopoly is a prerequisite for planning any such transformation.

With the single desk in doubt, the CWB has begun a series of management reforms to better track its performance as part of an undeclared campaign to convince farmers that it does indeed operate efficiently, even in the absence of competition from other buyers.

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The future of the CWB monopoly is of particular interest to the biggest users of Canadian wheat. Canada's 10-year export average is 15.8 million tonnes, and the world's largest wheat exporter, the U.S., has been Canada's biggest customer in that period, taking 10% of the total. The second-biggest customer is Japan, with an average of 1.4 million tonnes per year, and Iran is the third largest at 1.2 million tonnes per year. However, Iran's purchases peaked at 3.5 million tonnes in 2000-01, the most by any country in 10 years, and have fallen dramatically since. The biggest buyers of Canadian durum wheat are Algeria and Morocco.

It is interesting to note that most of the largest customers for Canadian wheat, with the U.S. being the main exception, are countries with government wheat import monopolies like Japan, Iran and Indonesia. Algeria, in theory, has liberalized wheat imports, but its state grain company acts as a de facto single desk for durum imports. Such large government-to-government contracts are naturally a prime target for an organization like the CWB, which must move almost 16 million tonnes of wheat per year. But with so many non-commercial factors at play, the question Canada's farmers must ask themselves is whether they truly are getting the best possible deal enough of the time. **WG**

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