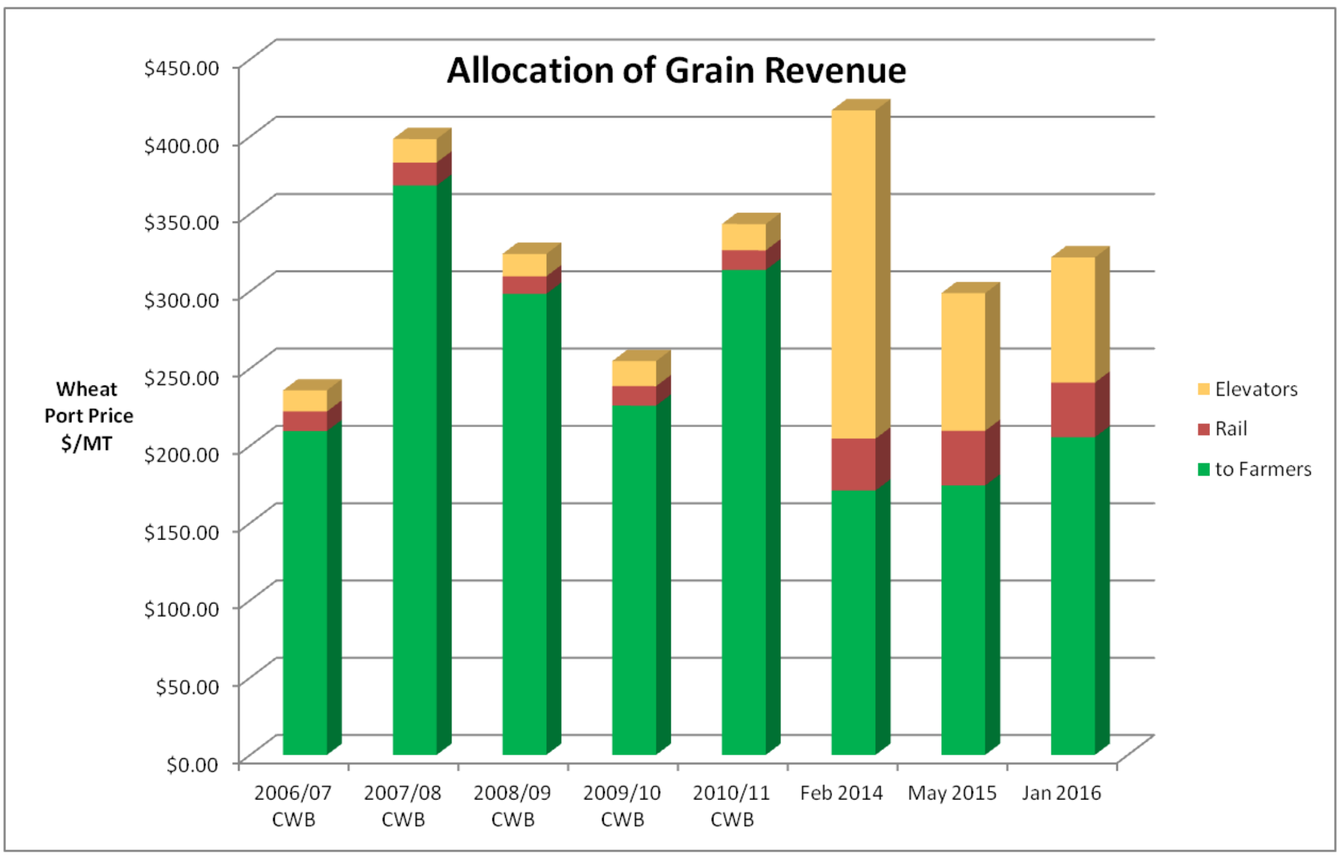
Impacts of the Loss of the CWB

March 2016

Richard Gray, Agricultural Economist at the University of Saskatchewan in an August 2015 paper, explained farmer losses in 2013/14 and 2014/15 crop years:

"The resulting increase in export basis is reflected in a lower price paid to producers and reduced farm revenues. A conservative basis impact of $5.05 billion, in addition to the $1.43 billion price differential for Canadian wheat relative to US wheat in Portland, means that **the minimum total value of loss to producers is approximately $6.5 billion dollars.**" [Emphasis added]

The real grain price situation for farmers got substantially worse in 2015. Grain is priced in US dollars and because the Canadian dollar lost 30% of its value the domestic grain price (in Canadian dollars) for western farmers should have increased accordingly but it did not. Instead the price for number one wheat on the prairies is effectively $4 US per bushel; a price not seen for decades and one that is close to Great Depression levels once it is adjusted for inflation. **With the loss of the single-desk CWB and Stats Canada reporting a record 90 billion dollar farm debt rural Canada faces a perilous future.**



This graphic shows the annual farm revenue loss resulting from the end of farmers' market power created by the single-desk Wheat Board.

Sources: CWB Audited Statements 2006 to 2012; CWB Market Newsletter March 2014; Agriculture and Agri-Food Canada Weekly Price Summary; Canadian Transportation Agency MRE hearings; Canadian Grain Commission Maximum Tariff Rates; Quorum Corporation Grain Monitor Reports.

In a December 2014 interview, Dr. James Nolan, an economist from the University of Saskatchewan, confirmed our calculation which shows prairie farmers received only 41% of the Vancouver price in 2014. Using audited data, CWBA calculated that in previous years farmers received about 90% of the Vancouver price with the CWB single-desk system. Dr. Nolan went on to observe that as grain companies continued to consolidate: "according to our models, where you have market power in the railway and in the grain company system, the farmers might get 20% of the revenue."

Our rural communities are losing millions—Manitoba Example

To quote Dr. Gray again: "For a 1000 acre farm, the income reduction would have been in the order of $126,000. Each producer would have been impacted differently but the average impacts were very large and economically important. These large negative impacts are felt throughout the economy as producers earn less income, pay less taxes and buy fewer goods."

This loss of revenue is significant for communities. In 2013, farmers in Manitoba's Swan River Valley grew an 11 million bushel bumper crop of wheat. Using the loss of $4.69 per bushel the total loss of revenue to the Swan River area is over $50 million for the 2013-2014 crop year.

Currently both provincial and federal governments provide about $400 million annually in farm income support and programs. To compensate for the loss of revenue generated through the CWB single-desk the federal and provincial governments would have to substantially increase current support levels.

The National Farmers Union, Friends of the Canadian Wheat Board and the Canadian Wheat Board Alliance want to see the single-desk CWB reinstated as do a large majority of prairie farmers. At our meeting with the Manitoba government on May 2014 MLA Steve Ashton said "we do not need to reinvent the wheel here, we already had the wheel," meaning the single-desk CWB.

The right of farmers to collectively market/bargain for their production

Federal and provincial farm products marketing acts all require that farmers shall have a vote to create or eliminate marketing board structures. Labour laws also enshrine similar rights for workers' bargaining units. People have the right to organize, vote for, and collectively bargain for their work. The former CWB Act also enshrined the rights of farmers to determine the future of the CWB by a plebiscite of producers. Farmers consistently elected directors committed to the CWB single-desk system. The Harper government removed the farmer-elected directors and farmers' collective marketing/bargaining rights were destroyed.

Collective bargaining is a basic right in a civil society and was recognized as such by the Supreme Court of Canada in Saskatchewan Federation of Labour *V.* Saskatchewan, 2015 SCC 4, [2015] 1 S.C.R. 245 and in an earlier case giving RCMP members the right to collective bargaining.

Trade Deals are no impediment to restoring orderly-marketing

Using a single-desk is a (collective) extension of our private property rights and those private property rights were not extinguished with the CWB nor were they transferred to private investors.

Legal obligations to investors are zero because the establishment of a new single-desk marketing agency will take zero assets from them. The most valuable CWB asset was its single-desk marketing responsibility which was extinguished with the killing of the CWB and that asset only had value to prairie farmers.

Grain handling companies will get to keep their physical assets and they can keep handling grain as they have always done. But with a new single-desk farmers would take collective ownership of our grain from farm to end-use customers, as is our right to do so. The Supreme Court of Canada, in two recent decisions has asserted that collective bargaining, which is exactly what single-desk selling is, is a constitutionally protected right. We can call the organization for doing our collective bargaining whatever we want.

Other countries, including the US have single-desk marketing systems for all sorts of commodities with zero sanctions from others. The trade agreements offer no limitation as to how countries **regulate** marketing. The US has several single-desk sellers for various commodities established under the US Agricultural Marketing Agreement Act of 1937 which authorizes the Secretary of Agriculture to establish "marketing orders" for milk, fruits, vegetables, and speciality crops like California oranges, lemons, tart cherries, almonds, walnuts, and filberts.

These are regularly renewed including some less than two years ago. They perform all the functions for their growers that the CWB provided for prairie farmers including single-desk selling, price pooling and quota allocations, and many of them, like the US Federal Milk Marketing Orders (FMMOs) also contain supply management and distribution elements. The Manitoba Fresh Water Fish Marketing Board, Canpotex for potash, and New Zealand kiwi marketing, are other examples of countries regulating marketing. Regulating marketing is an internal matter.

The West Coast Situation

Ships arriving in Vancouver to load wheat now have to dock multiple times at the same terminal before being filled. In the past when the CWB handled all export grain the ship could move from terminal to terminal as necessary to fill its holds. The grain monitor Quorum Corp. reports that “Prior to the 2010-11 crop year, the average time vessels spent in port at Vancouver and Prince Rupert was between five and ten days. A steady increase in this time has been recorded over the past four years. The high point last winter exceeded 26 days.” (Grain Monitoring Report, July 2015)

After the loss of the CWB single-desk the grain companies have operated a grain handling system on the coast that is costly and inefficient. This is exemplified in February 2014 when more than fifty ships waited for grain at Vancouver while being paid demurrage. The situation showed the failure of the grain companies to coordinate the efficient movement of grain and fully utilize our transportation system. Farmers paid for this failure through lower grain prices. In 2013/14 Quorum reports that 22% of the vessels waited 6 to 10 days to load whereas with the CWB less than 11% of the vessels had to wait that long. On average 30% of the vessels were loaded the same day by the CWB compared to now where only 7% of the vessels are loaded the same day.

Thunder Bay and St. Lawrence

The grain companies have little incentive to move grain to Thunder Bay in the winter because it costs them to carry inventory there. There is now notably less eastern rail movement from Thunder Bay to the St. Lawrence ports in winter. Previously, the CWB moved grain by rail in winter to the St. Lawrence ports when there was a big crop to move. This winter movement placed grain in export position, relieved supply congestion, and provided needed cash flow to farmers.

Eurasian Wheat imports to Canada

Quorum reports that the cost for a 60,000 mt Panamax class grain ship is now $2,000US per day. On an average 20 day journey from Odessa, Ukraine wheat can now be landed in Montreal for a mere one dollar US per metric tonne. The average rail cost for moving prairie grain east is about $35/mt according to the most recent Canadian Transportation Agency audits.

Recently The Canadian Pasta Manufacturers Association complained about Turkish pasta imported into eastern Canada. How long will it be before low ocean freight rates make prairie wheat uneconomic for Canadian food processors east of Thunder Bay? Given the narrow margins for food processors and retailers, how much longer will it be economic for the giant food retailing chains to use prairie wheat at all when they can source virtually unlimited amounts of Ukrainian wheat via deep water?

Churchill

In the Churchill catchment area farmers lost the CWB Churchill storage program. Another loss to farmers is the Churchill freight advantage of $25/tonne, due to shorter rail distance and lower ocean freight costs. Omnitrax is selling the line and it is unlikely that grain will continue to move through this port. Reinstating the CWB single desk system is essential to a viable rail line to Churchill and supplying the north not to mention the substantial freight cost advantage for farmers in the eastern catchment area which includes Manitoba.

Winnipeg

Winnipeg has lost approximately 460 direct jobs and 1,834 indirect jobs with the end of the single-desk CWB's activities. The Canadian Grain Commission (CGC) located in Winnipeg is being decimated by cuts which will create further job losses. *PricewaterhouseCoopers* reported that the loss of the single-desk meant a loss of:

- **A Gross Provincial Income Impact of $86 million.**
- **More than $66 million in wages and salaries.**
- **Over $3 million collected by local government**

Winnipeg Research Center closure

Two years ago the effective closing of Agriculture Canada's Winnipeg Cereals Research Center, the firing of one third of the staff and the transfer of the remaining staff to Brandon and Regina were part of this disturbing trend. In addition, the internationally recognized Canadian International Grains Institute (CIGI) is also facing an uncertain future since its funding has been largely privatized compromising both its reputation for integrity and objectivity.

In short the City of Winnipeg is fast losing its position as the center of the grain industry in western Canada.

Blending, Protein Premiums, and Fusarium Programs

Since the elimination of the CWB blending of the entire crop no longer takes place for the benefit of farmers. Any revenue from blending upgrades goes to the grain companies. Fusarium infected wheat was particularly prevalent in Manitoba but with changing weather patterns is spreading across the prairies. Without the single-desk there is no longer a fusarium program to market fusarium wheat which has caused a loss of revenue to farmers in affected areas. Protein premiums from the grain companies have been minuscule compared to the premiums received with the single-desk.

The CWB regularly paid protein premiums. There have been years of late (the 2010/11 year for example) where #1 CRSW with 15.5 protein receives a $3.46 /bushel premium over #1 CRSW with only 11.5 protein. This means $170 more per acre from the protein alone on a 50 bushel per acre crop.

Climate change, increased CO_2 and the shift from rail to truck traffic

Grain moved by rail is calculated to be six to ten times more energy efficient than by truck. The system now operated by the grain companies involves long distance trucking to a rationalized elevator system. In many cases wheat is trucked to the US. In Swan River, for example, there is only one Pioneer elevator left so approximately 5 to 8 million bushels of grain must be trucked up to 120 miles to elevators in either Dauphin and Yorkton. The grain handling and marketing system operated by the grain companies is not just inefficient but wasteful, causing extra road maintenance and using extra fuel resources which all contribute to global warming. These extra costs are downloaded to producers and provinces.

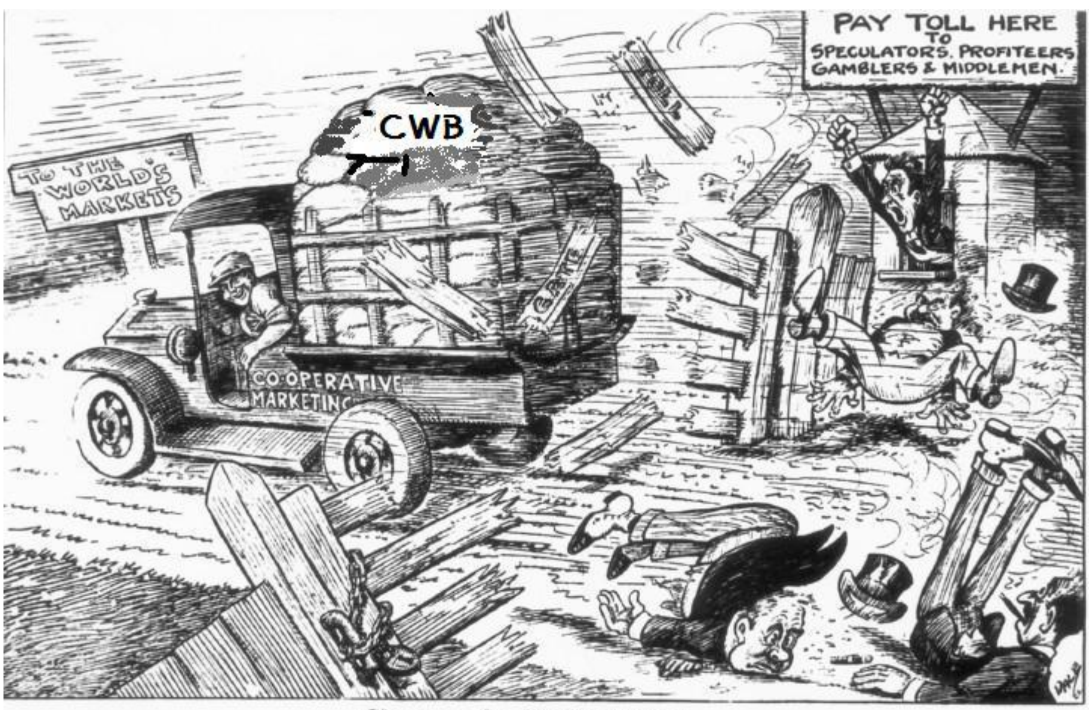
Summary

History shows the CWB has been brought back twice already and that grain growing on the prairies was never viable without a single-desk CWB.

The loss of the farmer-controlled, single-desk Canadian Wheat Board has resulted in an increasingly dysfunctional rail system, no grain logistics oversight, a loss of transport efficiency on land, by rail, and at sea, reduced grain quality guarantees to other nations, and an overall yearly loss of billions of dollars to farmers and their communities. This has had a devastating impact on the prairie economy in jobs lost, rural spending and trade balance which ultimately affects all of Canada.

The single-desk CWB was the economic lynch pin which made prairie grain production viable by ensuring efficient movement of high quality grain to the customer and guaranteeing the benefits were returned to the farmer. Customers were willing to pay a premium because they were assured high quality grain and reliable delivery.

The more things change, the more they stay the same (from 1928)



Clearing the Right of Way

Who We Are: The Alliance is a politically non-partisan organization focused specifically on the Canadian Wheat Board. Members of the Alliance recognize the advantages the Board brought to producers through the single desk and price pooling, quality assurance through the Canadian Grain Commission (CGC), as well as the important role the CWB played as an advocate for farmers in transportation, producer cars, and on the world stage in trade disputes and negotiations. The Alliance draws memberships throughout the west.

Appendix 1

Quick Facts: DEMURRAGE

Demurrage: Demurrage is the money which the grain shipper, in this case, the farmer-run Canadian Wheat Board, paid to shipping companies for late delivery of grain. Despatch is the money the CWB earned from shipping companies for getting the ship loaded ahead of time. The ideal for both parties is to pay neither but other factors, like poor railway performance, incompetent elevator companies and acts of God often interfere.

In the CWB Annual reports, from which the following numbers are taken, this number is usually reported as "Net Despatch" which is the amount earned in despatch minus the amount paid in demurrage. Where the reports provide numbers for each item they are included. Usually this number was too small to merit a line item. In those years the number has been left blank.

Time Period	Demurrage $ millions	Despatch $ millions	Net Despatch $ millions
2015	53		
No single-desk to Feb 26/2014	61.1	17.1	(44)
2009/10 single-desk			nil
2008/09			7.4
2007/08			1.5
2006/07			4.1
2005/06			4.6
2004/05			nil
2003/04			nil
2002/03			nil
2001/02			4.1
2000/01			6.1
1999/00			5.8
1998/99			6.6
1997/98			3.7
1996/97	18.7		

Sources: CWB Market Research Services Newsletter, 02/26/14; CWB Annual Reports 1996/97 to 2009/10; Quorum Corp.