Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 3/21/2000

GAIN Report #CA0029

Canada

Grain and Feed

Canadian Wheat Board Announces New Payment Options

2000

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Report Highlights:

A Fixed Price Contract is being offered by the CWB to address farmers' requests for greater price flexibility to manage cash flow for their farming business. The fixed price contract, which also includes a basis component, allows farmers to lock in a price for Canada Western Red Spring wheat (excluding Canada Western Feed wheat) before the beginning of the crop year. The CWB price pooling system remains for farmers who choose this option, and will continue to provide farmers with pooled payments for grain marketed by the CWB.

Includes PSD changes: No
Includes Trade Matrix: Nox
Unscheduled Report
Ottawa [CA1], CA

CWB Board of Directors Approve New Payment Option for Farmers

The following was taken from a March 1, 2000, news release from the Canadian Wheat Board (CWB). Begin text.

Winnipeg -- The Board of Directors of the CWB approved a new Fixed Price Contract which lets farmers fix a price or a basis for their wheat before the beginning of the crop year.

"Farmers who want to lock in a fixed price or basis for their wheat and get full payment for it earlier now have that option," said Board Chair Ken Ritter.

"We've listened to farmers who say they need more flexibility in the CWB system to manage cash flow on their farm. At the same time, this method of payment is separate from the CWB price pooling system, which will continue to be there for farmers who want it to manage their risk by receiving initial, adjustment and final payments throughout the marketing period. Wheat delivered under Fixed Price Contracts and wheat delivered under traditional price pooling will occur under existing methods available to all farmers, namely acre-based calls and delivery contract calls."

Ritter said the Board approved a Fixed Price Contract applying to Canada Western Red Spring (CWRS) wheat (excluding Canada Feed wheat) in 2000-01. There are two components available to farmers in the Fixed Price Contract. They can lock in a fixed price for a given quantity of wheat based off the CWB's Pool Return Outlook or they can lock in a basis over the Minneapolis Grain Exchange futures price and later lock in a futures price prior to delivery.

Mr. Ritter said the 2000-01 program is our first step together with farmers in developing flexible payment options. "We would appreciate receiving feedback from farmers regarding the 2000-01 program as well as ideas for development and enhancements in subsequent crop years", Mr. Ritter said.

Beginning with the announcement of the CWB Pool Return Outlook (PRO) on April 27, 2000 and then every month up to and including July 2000, a fixed price and a basis for farmers will be made available for a period of up to five business days for farmers who want to lock in a price for No. 1 Canada Western Red Spring Wheat, 13.5% protein. Farmers who lock in a basis along with their tonnage must then commit to a Minneapolis futures price by contacting the CWB prior to settlement, or prior to the first notice day of the futures contract, whichever comes first. Farmers interested in participating may then contact the CWB to commit a minimum of 20 tonnes.

The fixed price will be calculated using the midpoint of the PRO (basis instore Vancouver/St. Lawrence) minus a charge for risk, administration and the time value of money. The basis will equal the fixed price minus the current Minneapolis futures price, adjusted to Canadian dollars per tonne.

The Board also agreed to actively explore other mechanisms that would enable farmers to receive funds in advance based upon their equity in the CWB pool accounts.

The Board said implementation of the payment options will not have any impact on CWB pool accounts. A major principle in designing the payment options is that they not affect the core strengths of the CWB--single-desk selling, price pooling and the partnership between farmers and the federal government. A Contingency Fund will be established for the operation of the Fixed Price Contract. Farmers who use the payment options pay all costs of operating the programs.

BACKGROUNDER

A Fixed Price Contract is being offered by the CWB to address farmers' requests for greater price flexibility to manage cash flow for their farming business. The fixed price contract, which also includes a basis component, allows farmers to lock in a price for Canada Western Red Spring wheat (excluding Canada Western Feed wheat) before the beginning of the crop year. The CWB price pooling system remains for farmers who choose this option, and will continue to provide farmers with pooled payments for grain marketed by the CWB.

CWB Price Pooling

Price pooling provides farmers with the average selling price that the CWB receives from the sale of Western Canadian wheat and barley during the crop year (adjusted for grade and delivery location), independent of when the farmer makes delivery during the crop year. Farmers are paid an initial payment when they deliver their grain. The Government of Canada guarantees this initial payment. During the crop year, farmers may receive additional payments called adjustment payments if warranted by the level of revenue in the pool accounts. After the crop year but prior to the final payment, interim payments may be issued. All funds left in the pool accounts, after marketing costs, are paid to farmers as a final payment during the first week of January following the end of the crop year.

Fixed Price Contract

A fixed price contract enables farmers to lock in the full price that they will receive for Canada Western Red Spring (CWRS) wheat (excluding Canada Western Feed wheat) prior to the crop year. There are two components available to farmers in the fixed price contract. They can lock in the fixed price for a given quantity of wheat or they can lock in a basis for a given quantity of wheat and lock in a price at a future date. Farmers will continue to receive the initial payment upon delivery. An additional payment will be issued by the CWB to ensure that the farmer receives the difference between the fixed price and the initial payment. These payments represent full payment for the wheat and there are no further payments owing to the farmer.

Establishing a Price under a Fixed Price Contract

Beginning April 27th and every month up to and including July 2000, the CWB will announce a Fixed Price Contract pricing schedule along with the CWB Pool Return Outlook (PRO).

The CWB fixed price will be based upon the mid point of the PRO for No. 1 CWRS, 13.5% protein, less a discount for risk, time value of money and administration.

The basis will be the difference between the CWB's fixed price and the relevant Minneapolis Grain Exchange futures price adjusted to Canadian dollars per tonne. The farmer must lock in the futures price prior to delivery.

Farmers can select the fixed price or basis on the day of the PRO announcement and each day for up to four business days. The fixed price or basis offer may be withdrawn at anytime and without notice.

Registering for a Fixed Price Contract

By pre-registering, farmers can take advantage of the convenience of the CWB's toll-free telephone service to commit to a Fixed Price. To pre-register, farmers will sign a Fixed Price Contract terms and conditions, made available to all farmers by direct mail, by calling the CWB toll-free number, fax on demand, or local elevators. The farmer will be assigned a PIN number. The PIN number is an electronic signature, making it possible to commit to a contract over the telephone. Receiving the PIN does not commit the farmer to a fixed price contract until the farmer uses it to commit a specific tonnage.

Delivering for a Fixed Price Contract

Farmers will deliver for a Fixed Price Contract using the same delivery mechanisms as pooled grain, namely acreage-based delivery opportunities and delivery contract calls. If required and if the farmer has taken full advantage of all delivery opportunities throughout the year, additional delivery opportunity will be provided by the end of the crop year.

Upon delivery, farmers will receive the CWB initial payment for the grade and protein of the wheat delivered for a Fixed Price Contract. Shortly after, the CWB will pay the farmer an additional payment representing the difference between the fixed price and the current initial payment for No. 1 CWRS, 13.5% protein, less all deductions. Or, in the case of a basis, the CWB will forward to the farmer the difference between the basis plus the relevant futures price less the initial payment and minus all deductions.

Contingency Fund

A contingency fund will be established so that the fixed price program will have no impact upon the pool account. Although a surplus or deficit may occur in a given year, the contingency fund is expected to break even over the long term. End text.

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