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Adjusting in a new era of the Canadian Wheat Board

Farmers and ag-retailers alike are trying on new roles in the wake of CWB deregulation

By Heather Hudson

It's a brave new world for western Canadian wheat growers.

With the deregulation of the Canadian Wheat Board (CWB), producers are suddenly faced with the freedom to sell in an open market. But with independence comes greater responsibility and, potentially, increased risk.

Are farmers equipped to market their own grain? How can ag-retailers help them capture top market value for crops? Is there an advisory role to play when it comes to the principles of marketing grain?

Some say this is uncharted territory and anything can happen. Others maintain that it's no big deal; marketing grain is just one more of the hundreds of decisions farmers make every season.

We spoke to four experts invested in this issue to get their perspectives on what a free wheat market means for Canadian agriculture and how producers and ag-retailers can not only cope, but thrive.

Brent Watchorn, Senior Vice-President of Marketing, Richardson International Limited

Watchorn says that while there is opportunity for ag-retailers to get involved in providing marketing advice, it's a tricky business that may require steel nerves. "It's going to be pretty hard as an independent to truly stay in touch with where the market is at and, more importantly, where it's going. It can go up and down so quickly and within days. It's not a predictable market, nor is it one that is in any way static."

And lest any producer or retailer thinks it's as simple as applying their knowledge from other areas of the farm, he cautions that marketing wheat is not the same as setting direction on crop inputs. "The market is so dynamic that what you set up for a strategy one week will be different the next. It's hard for independents to provide good, solid advice on grain because at any point in time it could look wrong due to the volatility."

In the end, he gives the same advice to ag-retailers as he does to producers. "You know what it costs to put a crop in the ground and you'll be able to see

when farmers will be able to make money. You're not always going to pick the highs and you don't want to pick lows. If you have a reasonable margin expectation, book part of your crop and move on."

He recommends that retailers stay as informed as possible about market activity, but not to get too hung up on details. Perhaps a more advantageous place to put focus is on the partnerships to be had with grain companies to offer farmers a complete marketing and handling package, as well as staying on top of trends regarding wheat quality. Watchorn predicts there will be a divergence away from strictly high-quality varieties and more room for others.

"Retailers will need to know what wheat varieties are working in the market and that could fluctuate significantly as well."

Blair Rutter, Executive Director, Western Canadian Wheat Growers
There are few organizations that are more delighted about an open wheat market than the Western Canadian Wheat Growers. "[Deregulation of the CWB] has been our number one policy push for 40 years," said Rutter.

He points to a variety of positives of this new climate, but is especially interested in discovering how ag-retailers and entrepreneurs create new niches for themselves. He expects that there will be lots of room for people who know the markets to play a role.

"Farmers are familiar with some of the types of contracts and arrangements [of selling their crops] but there will still be a need for more information, thus opportunities for people to provide advice to farmers more so than in the past."

Expanding into grain dealing is also a possibility for retailers. "You'll see a lot more new varieties of wheat come into play. Some of them might be US varieties, so there are great opportunities to become a seed dealer. Entrepreneurs and established people in the business can plug into this new world in many different ways."

Rutter believes the more competition, the better the market. And if more ag-retailers become licenced to deal grain, the economic vitality of many rural communities can be improved.

"Basically, each retailer has to decide for themselves whether they want to offer a broader array of services to farmers or focus on one and do it well. There will be opportunities for players to be more entrepreneurial regarding what they might offer to farmers. Does that mean everyone should get into the market advisory service? No. But those who do could stand to do very well."

Brad Vannan, President and COO of ICE Futures Canada

When it comes to number crunching, Vannan has it all worked out. He has tremendous confidence in farmers' ability to make marketing decisions for themselves.

“I think as with anything new it’s going to take some effort [for farmers] to educate themselves about the marketplace, seek advice from trusted sources and to not be afraid to try something new. There’s no requirement that they have to sell all their crops at one point in time. There’s no requirement that says they have to use one specific tool or one specific outlet.

“This is a learning phase for the entire industry and because of that I think farmers will want to try a variety of tools that are available to them, including possibly the new CWB.”

He points out that just like with any other decisions to be made on the farm, there will never be a one-size-fits-all solution to marketing grain. Ag-retailers venturing into the business of providing market advice might do well to find a number of ways and places for farmers to sell their grain. The first year might be the time to experiment.

“The one thing they’ll be able to do with a well functioning Futures market is provide themselves with some pricing risk protection without obligating themselves to a specific grade of wheat. They’ll be doing it in a market that in the fullness of time should have enough liquidity in that if they want to offset some decision they made earlier in the year they can do that in a fair and transparent marketplace. That transparency and liquidity is extremely valuable to the farmer.”

Gord Flaten, Vice-President of Grain Procurement, Canadian Wheat Board
Is there a place for the CWB in the free market? Absolutely, according to Flaten. “Once we knew what was going to be provided in the new legislation we developed a new set of programs that use those resources and what we think farmers will look for.”

According to Flaten, the advantages of continuing to deal with the CWB include:

- Financial security – “We have a good capital base to work from with guarantees from government so payments to farmers are guaranteed, thus making us more competitive.”
- Price pooling – “This is what farmers have done with the CWB for a long time and they can be sure to get a good average price that reflects the market for the pooling period.”
- A seasoned sales force – “Farmers can put their grain in the CWB pool knowing that it’s going to be marketed by people who know what they’re doing and who have developed great relationships with customers all over the world.”

In this climate of remarkable change, Flaten says the CWB can be relied on to provide consistency and stability for farmers. He encourages retailers to become service agents of the CWB to provide added value for farmers who like a more traditional approach. “The

retailers can get access to our electronic services so they can sign up farmers online to various contracts. It's another service that they can provide that a lot of them find beneficial.

This is one issue that will be played out for years to come and may all come down to striking the right balance between caution and risk.

Facing the new reality

One of the biggest changes cited by all of our experts is new access to market information. "Farmers will be able to look for market quotes and Futures quotes right on their own home computers with maybe only a 10-minute delay to a live market," confirmed Vannan.

"They weren't getting information in that timely a fashion from the CWB, nor did they need it because it wasn't important to them in making the decisions that they had control over."

This new access may serve to feed anxiety or create an unhealthy interest in the fluctuations of the market. Vannan cautions against following the market's every move; instead, limit your time to honing in on whether or not you're going to achieve a reasonable margin.

Meanwhile, Flaten says this uncertainty is one more reason to stick with the CWB where stability is much more assured. "The core of our business will continue to be price pooling. Farmers don't have to worry about deciding to sell grain when the cash market is low. It's impossible to predict what's going to happen with prices and that creates a risk for farmers in terms of timing of sales. We offer cash buying as well but we think pooling is our competitive advantage."