

How Would a Voluntary CWB Operate?

Operating Successfully in a New Marketing Environment: Issues Facing Farmers, Agribusiness and Government

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Issues Covered

- What are the requirements for a successful voluntary CWB?
- Can the CWB meet these requirements?
- What is the experience with voluntary pooling in the grains sector?
- What marketing options would a voluntary CWB create?
- What functions will it perform?
- Is there a role for policy?

Requirements for a Successful Voluntary CWB (vCWB)

General Comments

- Useful to look at agricultural co-operatives, since a vCWB would essentially be a co-operative
- Requirements listed below are neither *necessary* nor *sufficient* for a successful vCWB
- Thus one or two of the requirements could be missing and a vCWB could be successful; at the same time, the presence of one or more of these requirements does not ensure success
- Great deal of uncertainty – examples and conclusions largely drawn from other countries and/or other commodities and thus may not be generalizable to grain marketing on the Canadian prairies

Requirements for a Successful vCWB

The Case of Pooling

- While risk averse producers may potentially prefer a pool over the spot market, this preference does not seem to be enough to ensure the success of a pool
- “Any cooperative or other body initiating a market pool must be certain it can provide a special service or expertise that is truly beyond the reach of individual growers, if sustained success is to be assured. Evidence is conclusive that merely combining the crop volume of a number of growers for marketing purposes is not enough. The successful operations studied capitalized on one or more special advantage(s) they developed to differentiate their role in the marketing of the agricultural commodities with which they are identified”
(Hammonds 1976)

Special Advantages Include:

See Hammonds (1976) for details

- Specialized grading services offered by the co-operative
- Brand-name products at the consumer level
- Quality control programs offered by the co-operative
- Substantial vertical integration

Requirements for a Successful vCWB

Management, Marketing and Operations

- Ownership of primary grain handling facilities on the Prairies
- Ownership of terminal grain handling facilities at port position
- Highly qualified management
- Highly qualified marketing staff and good marketing knowledge and connections
- Internal culture appropriate to competing in a market
- Access to capital
- Source: Adapted from Boyd (2011)

Requirements for a Successful vCWB

Trust and Commitment

- Successful co-operatives require strong member commitment and trust
- Trust and commitment are not created immediately, but have to be built up over time
- Key elements in generating trust are transparency and having the members control the organization – e.g., electing board members that oversee business policy and hold management accountable. Source: Fulton and Giannakas (2001)
- What is the level of trust today?

Why Is Trust and Commitment Important?

Trust Allows Complementary Expectations to Be Created

- Trust is critical in raising capital
- Trust is critical in getting access to grain
- One way a vCWB could obtain access to grain handling facilities (and hence farmers' grain) would be to put forward a tender for say 30% of the grain handle in the next year. Grain companies would be asked to bid on it on a “take it or leave it” basis
- When would such a strategy be successful?
 - When the farmers could commit to delivering grain to the vCWB – i.e., not be tempted to give in and accept an alternative offer, and
 - When at least one of the grain companies was tempted to give in and bid – i.e., not be committed to a strategy, along with the other companies, of not bidding

Can a vCWB Meet These Requirements?

A Check List

- X Substantial vertical integration or other special advantages
- X Ownership of primary or terminal grain handling facilities
- ✓ Highly qualified management
- ✓ Highly qualified marketing staff and good marketing knowledge and connections
- ? Internal culture appropriate to competing in a market
- ? Access to capital
- ? Trust and commitment

Experience With Voluntary Pools

- Pooling has been successful in cotton, rice and fruit & vegetable processing in the United States
- Landmark/Ohio Farm Bureau, Farmland and Harvest States operated unsuccessful wheat pools in the United States
- Grain Farmers of Ontario operate small grain pool
- Co-op in Sweden operates a grain pool
- CBH Grain and AWB in Australia (a division of Cargill) operate grain pools
- No pools in the canola sector in Western Canada
- Cargill has announced its willingness to consider a grain pool in Western Canada

Marketing Options

Pooling

- Experience with grain pools, and the conditions required for successful operation as a pool, suggests that it is unlikely that a vCWB would be able to provide pooling as a marketing option
- If pooling were successful, it is likely that competitors (e.g., Cargill) would also offer this option
- Thus, a vCWB is unlikely to provide any marketing functions that the other companies would not also offer

Marketing Functions

Broker versus Grain Purchaser

- Since a vCWB does not have grain handling facilities, and has no way of raising capital to purchase facilities (at least in the short run), it is unlikely that they can operate as a grain purchaser
- Operating as a grain broker will be difficult
- While existing grain companies may be willing to allow a vCWB to use their facilities, the access price is likely to be such that only small amounts of grain are handled by a vCWB

Marketing Functions

Marketer for Other Producer Groups

- A vCWB could sell grain on behalf of producer car facilities and producer-owned inland terminals
- Magnitude of such sales is likely not all that significant, even if all such facilities were to commit 100% of their grain
- Top four grain handling firms (Viterra, Richardson Pioneer, Cargill and Louis Dreyfus) have 72% of primary grain handling capacity
- Handling of these sales would also require use of competitor facilities, particularly at port (the top four grain handling firms have 97 and 94 percent of capacity at Vancouver and Thunder Bay, respectively)

Why is a Viable vCWB Important?

- Provides direct competition to the existing grain companies
- Allows producer car handling facilities and farmer-owned terminals to operate and to compete with existing grain companies
- If a vCWB were to be very successful, it would be able to provide important industry-level public goods
 - Assist in defending trade access to the United States
 - Ensure that regulatory tools such as the revenue cap and level of service requirements are in place and are used
 - In its heyday, Prairie Pools played these sorts of roles to some extent

What Assistance Does Bill C-18 Provide a vCWB?

- X President and directors appointed by government
- X Governor in Council can direct the vCWB's activities
- ✓ Minister of Finance may approve loan guarantees to the vCWB
- ✓ Establishment of a contingency fund that can be used to accumulate surpluses
- X In the event of dissolution, any positive balance in contingency fund belongs to the government

What Else Might Have Been Added?

- Provision for competitive access to grain handling facilities on the Prairies and at port
- Provision for the collection of market data on the port price and the price at the country elevator
- Clarification of how the Government of Canada will deal with trade disputes
- Clarification of how the Government of Canada will deal with level of service complaints and the revenue cap

How Would a Voluntary CWB Operate?

- Unlikely to operate as a grain handler
- Unlikely to offer a pool account (or pool account will be relatively small)
- Will struggle as a grain broker
- Will not play an important role in promoting competition
- Will play virtually no policy role

References

- Boyd, M. 2011. "Removal of the Canadian Wheat Board Monopoly: Future Changes for Farmers and the Grain Industry." Frontier Centre for Public Policy. Policy Series No. 115, July
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Thank You