Inside US Trade
CANADA MOVES TOWARD ENDING WHEAT MONOPOLY AS SOUGHT BY U.S.

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A Canadian task force plans to complete a report by today (Oct. 27)
on how best to implement the Conservative government?s plan to eliminate the grain marketing monopoly operated by the Canadian Wheat Board (CWB), according to the task force chairman. The U.S. government for years through the WTO has tried to eliminate the monopoly powers of the CWB, which it argues gives Canadian wheat growers the ability to underprice U.S. growers.

Howard Midgie, a senior official at Agriculture and Agri-Food Canada, told Inside U.S. Trade that the task force formed last month by Agriculture Minister Chuck Strahl was meeting this week by phone and drafting the report, which will make recommendations on how to address technical and transitional issues associated with removing CWB?s status as the only entity that can legally export grain grown in western Canada or sell it on the domestic market.

The task force planned to submit the completed report to Strahl by today, he said. However, Strahl would have discretion on when to release the report publicly, which would probably occur next week, Midgie said.

Midgie indicated the task force will make recommendations on the length of a transition period after which the CWB would fully lose its monopoly powers. A U.S. wheat industry source said the timeline is not crucial to U.S. producers, so long as Canada eliminates the monopoly powers. The Western Canadian Wheat Growers Association, which for decades has pushed for an end to the monopoly, seeks elimination by Aug. 1, 2007, the group?s president, Cherilyn Jolly- Nagel, told Inside U.S. Trade.

The CWB itself strenuously objects to an end of its monopoly, and refused to name a member to the task force. It did, however, provide technical information to the task force. In an Oct. 6 directive, the Canadian government barred CWB from expending any funds toward advocating the monopoly.

CWB argued in a response to questions asked by the task force that the monopoly allows CWB to pass along a premium to farmers that would otherwise go to a small handful of agribusiness corporations. However, Jolly-Nagel contended that producers would sometimes get a better price selling directly to an exchange than accepting the price CWB hands them.

According to a survey of Canadian grain producers commissioned by the CWB last spring, 45 percent of Canadian farmers backed the monopoly; 47 percent favored a ?dual market,? in which CWB continues in non- monopoly form as an alternative to other sales mechanisms; and 7 percent preferred to abolish CWB entirely. Strahl has described his proposal as setting up a dual market, but CWB argues there is no difference between a dual market and total elimination of CWB because without monopoly powers, CWB would be no different from a commercial grain trader.

The task force report is also expected to offer recommendations on how the CWB could acquire capital to make up for capital it expects to lose when all wheat, barley and durum growers in western Canadian provinces do not have to sell their grain through the CWB. This would likely force the CWB to pay higher prices to Canadian farmers, and the CWB might also have to sell wheat at lower prices in third markets because of the competition, which would cut into its ability to raise capital.

Midgie declined to list the options being considered for inclusion in the report, and said only that the task force was asking what method would best serve producers in a market environment.

One suggestion floated earlier this summer was to allow farmers to buy shares in the CWB, he said. Sources with the U.S. wheat industry said they would not have a problem with this, because it would be similar to U.S. grain cooperatives.

The task force is also expected to offer suggestions on how the CWB could fund marketing and research. Midgie said these activities could be funded through a check-off program in which farmers would check boxes allowing payments for marketing and research. Companies trading grain in Canada could also establish and support a private-sector industry council.

The task force is also deciding whether to recommend that CWB?s existing assets and liabilities should be retained by CWB after it takes on a non-monopoly form, or transferred to a government agency. In the 2005-06 year, the CWB had $32 million in net interest earnings from its combined assets and liabilities, and the CWB argues it has been able to pass these earnings to farmers by offering higher prices for their grain. Transferring the assets and liabilities to the government would prevent farmers from receiving these benefits, CWB argues. Additionally, CWB argues it would be difficult to do.

CWB currently has about $2.7 billion in assets that mostly reflect grain shipments to countries in the 1970s that have not been paid off. Countries that owe CWB for grain included Algeria, Brazil, Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia, according to CWB?s 2004-05 annual report. The liabilities consist of securities sold by CWB to balance off these assets.

The annual report pointed out that these assets are being paid off. Additionally, CWB pointed out that logistical problems with transferring the assets and liabilities to a government agency could be as difficult as soliciting approval from each individual investor who has purchased these securities.

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