Reflecting on CWB and looking ahead

Bulk-systems dominate our overseas grain-exports, and our mission is to create alternative or parallel "direct" export-channels for producers. We believe these direct channels can connect buyers with actual production sources, much like corporate buying practices across North America. Our last few articles focused on our plans and platform strategy to move overseas grain-trades this direction, to a more prosperous plateau exporting higher value crops yielding higher margins.

In our upcoming posts we will continue in this vein to engage producers further in the process, and to get their guidance in formulating our diversification initiatives. Here we thought we would take a break and look back at how our grain-trading system has evolved, what has been achieved, what stands in the way of producer interests, and how we can make the market-system work better, more fairly and competitively – not through government-intervention but trade-facilitation.

We start with the Canadian Wheat Board (CWB), as the topic appears on our social-media page quite regularly. Some loath it even more than they did when it was in existence, while others still reminisce about those "good old days", both sides with great passion. Since it is hard to get into the details on social-media, we take a couple of pages to describe how CWB had come about, how it had evolved, and how it had vanished – but we try to stay away from "drama" by sticking to realities.

Then we turn to broader industry trends, how the grain-economy had advanced even when the CWB had *monopsony* powers over wheat and barley – single-desk buyer and exporter. We also discuss the other side of the grain-industry, provincial wheat-pools, and how they consolidated and privatized even before CWB vanished. What emerged from this process was a highly concentrated grain-trading industry, not in domestic or cross-border grain-trades but in exports to overseas markets.

The real problem in overseas exports is their dependency on bulk-trades, especially when combined with a handful of grain-companies holding all the gates to the bulk-system. This structure not only squeezes the margins left over to producers but also holds back our diversification to higher value crop varieties and grades. The solution is not regulating or breaking up dominant grain-companies, but to put all our efforts to open more competitive direct export channels to overseas – our core mission.

In the last section we turn to the remedies offered through our own portal initiative with a three-prong strategy: direct-sales, specialization, and containerization. Critics may find a lot of challenges that come with this strategy, but this is the only path to prosperity, for the grain-economy collectively and producer-interests individually. The prospects are there to attract overseas buyers to procure the crops they need directly from our highly-advanced production-sources, farming-enterprises, which in turn will allow producers to diversify to higher-value crops and enjoy higher margins.

Looking back on CWB's heritage

The most talked about topic in grain circles in the last few decades has been the Canadian Wheat Board, a single-desk marketing system with monopsony powers over wheat and barley, the traditional export staples of the Prairie grain-economy. Until its demise in 2012, it had been the source of all evils for its critics, and the sole source of prosperity for its staunch advocates who still favor its resuscitation.

To relate to this perennial controversy, we must not only go back to the institution's creation in 1935 but even before that to the roots of the problems that had plagued the grain-sector, thus giving rise to the CWB. As the Prairies were being settled and opening to grain-trades, farmers learned to detest the railways they were dependent on and the grain-traders they believed were colluding to extract all the profits.

During WW1 the government shut down the *Winnipeg Grain Exchange*, took control of grain exports, and set up the *Board of Grain Commissioners*, a monopoly with price-fixing powers over most grains. Upon the war's conclusion the government set up the *Canadian Wheat Board* but only for one year. In its aftermath grain prices collapsed, not surprising with production resuming all around the world. Farmers had grown to like the idea of government regulation if not control over grain trades, as they were adequately compensated, with no traders trying to exploit them.

In the ensuing *laissez-faire* era, it was evident that the government was not going to step back in to regulate trades let alone fix prices. Thus, farmers decided to take the matter into their own hands; they set up their own cooperatives, *wheat-pools*, that took over all the members' output with the sole authority to market and sell grains – private traders were cut off. But the ensuing *Great Depression* did the wheat-pools in; not being able to hedge against crashing prices, they were left virtually bankrupt.

To clean up the wreckage of the *Great Depression*, public policy tide had reversed to interventionism all around the world, including Canada. To salvage the farm-sector, the federal government reinstated the CWB, initially as a temporary measure to give farmers some security. With the onset of WW2, however, the Board's powers were greatly expanded – compulsory participation by all, statutory price controls, and covering not just wheat and barley but most things grown across Western Canada.

Unlike after WW1, now there seemed no appetite to disband the CWB; government was determined to expand its mandate and authority, not just over exports but also domestic grain trades. With William Craig McNamara taking the Chair in 1958, and ruling until 1970, the Board's authority was expanded and entrenched in legislation. McNamara had risen through the wheat-pool movement, with the charisma to become Canada's grain-czar, a super-salesman on the world stage – opening new markets for Canadian grains, including forays into the Soviet Union and China. There were protests from the US, but farmers at large seemed content with the new order.

Towards the end of McNamara's rule, cracks had already started forming, the main thrust of discontent coming from the domestic feed-grain domain but also extending to the Board's control over too many crops, trapping farmers into a very tight-cage with little commercial freedom. Soon after McNamara's retirement into the Senate in 1970, the government limited the Board's mandate to non-feed wheat and barley.

This narrower monopsony-model extended CWB's life but with growing opposition – expressed in terms of personal-freedoms but a reflection of a broader political shift. When Brian Mulroney became PM in 1984, Conservatives had already taken power in Saskatchewan, for the first time since the *Great Depression*. Alberta had been in conservative (or social-credit) hands virtually forever, NDP would lose power in Manitoba in 1988, and the fact that NDP would come back in Saskatchewan in 1991 did not matter, since a market-driven-economy had become the accepted norm. Another 13 years of Liberal rule in Ottawa would not change anything either.

Before coming back to CWB's dissolution, let us touch on one additional dimension of the debate during the Mulroney era, when the grain sector came under further scrutiny during free-trade negotiations with the US. Though CWB proponents did not put much stock to it, US claimed unfair competition in export markets coming from a monopsony and by extension its single-desk marketing powers. The matter was swept under the carpet since the US had other matters to disguise, like hidden agricultural subsidies. On the world stage, WTO flip-flopped on the issue of whether CWB was a monopoly or a marketing-body, basically leaving the matter in limbo.

In any event, CWB survived the long stretch of Liberal rule in Ottawa, a federal matter that provinces could not do much about, particularly with NDP in power in the largest grain producing province, Saskatchewan. Going into the 2006 election the Conservatives were determined to bury CWB for good, and they probably could have done it even in their minority status if it was not for the aggressive behavior of the Minister of Agriculture from BC, not very sensitive to Prairie sentiments.

When the Conservatives gained the majority in 2011, they were quick to act with Bill C-18, *Marketing Freedom for Grain Farmers Act*. The Bill withstood a legal challenge and CWB's single-desk power came to an end by August 1, 2012. The Bill had also set a 3-year deadline for CWB's privatization; until then the entity could function as a grain-company. This deadline was met with the sale of a majority-stake to Global Grain Group (3G), a consortium of Saudi interests and a US grain-company, Bunge.

In our humble opinion, the whole saga of the CWB since the early 1970s had turned into a mindless political battle instead of following a rational trade-policy course. A great deal of progress was being made in the Prairie grain-economy, particularly in domestic and cross-border trades, but our overseas exports remained captive to bulk-trades with serious implications for the health of the grain-economy at large. First, however, let us look at what had happened in the shadows of the CWB.

Industry trends during and after CWB

To sum up our position on this controversial if not bitterly divisive topic, the role of CWB and its impact on Prairie grain-interests, these are our main points:

- CWB's inception was justified during WW1 to stabilize the farm economy, but its dismantling gave rise to another collective-intervention through the wheat-pools.
- The government's post-WW1 *laissez faire* approach was misguided, forcing its hand to CWB's reinstatement to restore stability during the *Great Depression.*
- CWB's expanded scope in the post WW2 era was an overreach, especially in domestic trades, but still made us a leading grain-exporter on the world stage.
- Clawing back CWB's scope to wheat-barley in 1972 was the right move, but a non-compulsory marketing-function could have also worked for these and other crops.

As to the next 40 years, we cannot relate to the intensity of the conflicts coming from both sides of the divide but must respect both as legitimate political discourse. CWB was neither as detrimental as the critics would claim, nor as necessary as its proponents believed. In defence of that neutral if not indifferent attitude, we would cite all that had happened to achieve progress in the primary-production domain:

- Driven by advancements in agronomy and technology, and improvements in farming-methods, grain-production was transformed beyond recognition.
- As a result, phenomenal yield-increases were achieved; with modest growth in domestic consumption, our grain-export volumes more than doubled.
- By the late 1990s canola export-share was already more than 10%, and 20 years on it would reach 25%; wheat share declined (75% to 50%) but not in volume.
- We became the premium source of pulses and added soybean to our exports; pea, lentil, soybean, and other oilseeds grew to account for 20% of our exports.

In view of all this, you may wonder why we are even pursuing our mission and what we are trying to accomplish. Sceptics may suggest that the same way as we were indifferent to CWB, we should let the grain-economy follow its natural course; however, the problems we see and are trying to tackle are not in production, but in the trading-sphere that holds the grain-economy back from achieving its full potential and prevents producers from realizing their fair share of the surplus.

In trying to find the underlying cause of these problems and searching for remedies, we must look at the grain industry's structure, not at the farm, but at the trade end. While everybody (producers and governments alike) was obsessed with trying to save or shut-down the CWB, a parallel structural transformation was evident in the grain-trading industry – a tsunami of corporate consolidation was already underway.

As we noted above, in the aftermath of WW1 the government had taken a hands-off approach to grain-trades, which had forced farmers to take the matter into their

own hands by forming cooperatives, wheat-pools, to battle powerful private trading interests. These pools found themselves insolvent during the *Great Depression* but managed to survive to live another day. They resumed playing a crucial role in collecting grains from farms, consolidating at country-elevators, selling directly where they could (non-board grains) or delivering to CWB terminals for export.

While the primary focus was on CWB, it went unnoticed (at least in policy debates) but in the mid-1990s a major restructuring and consolidation was taking place. The largest, Saskatchewan Wheat Pool (SWP) became a publicly traded company in 1996, followed by the merger of Alberta and Manitoba pools in 1998 and in 2002 bringing United Grain Growers under their wing to form Agricore United. In 2006 SWP launched a bid to take over AU; a competing offer from Richardson was withdrawn with an asset sharing arrangement, and Viterra came into being as a private giant.

Viterra went on a global acquisition spree expanding its operations to United States, Australia, and New Zealand, but the story would not end there. In 2013 Viterra was taken over by the global commodities giant Glencore, LSE-listed company but would hold Viterra under a Netherlands-based subsidiary, to become known as Glencore Agriculture. In 2016 Canada Pension Plan bought a 40% stake in the company, when the Viterra brand came back – perhaps a token of Canadian identity-symbol but the giant remains firmly in control of Glencore, and global trading circles know it as such.

In the span of a mere decade these consolidation trends were of huge significance but got little attention. Ironically, the focus of policy debates remained on CWB, even though the potential competitive consequences of these consolidation trends were much more consequential. Even more surprising was that in a country where economic-nationalism always raised its head, there was little attention paid to the scale of assets falling into foreign-hands, through not just Viterra but privatization of CWB – combined, a huge chunk of the asset-base supporting our grain-trades.

We at this portal tend to be agnostic to the national origins of corporate ownership in competitive industries, and moreover, take comfort in “contestability” – in other words, potential for competition from new channels to serve producers – to be too concerned with concentration per se. But we still find the government’s indifference to both concentration and foreign-ownership in the grain industry surprising, since this is an industry of national-interest with a high-degree of export-dependence.

In this case, increased concentration in the hands of a handful of grain companies was particularly worrisome, as they controlled access to the bulk-systems that overseas grain-exports were captive to. With all the gateways to the bulk-systems, inland grain-terminals, in their hands the market-power of these grain-companies would be uncontestable. It did not change our panacea of opening direct-sales and container-logistics channels but made our mission more necessary and urgent.

The real problem: captivity to bulk-trades

In 1972 CWB's monopsony was only on wheat and barley but that did not change its role as our single-desk grain-export agency to any great extent. Back then, wheat (including durum) accounted for the lion's share of our grain-exports. With barley also in the mix, albeit in smaller quantities, CWB was the face of our grain-exports in global grain-markets. We produced significant volumes of other grains as well but mostly for domestic consumption, thus they hardly registered in our export-mix.

We were and still are the "king" of wheat in global grain-trades, and deservingly so with the quality of what we export and the classification-systems we have in place to ensure that importers get what they buy. But while wheat trades were expanding worldwide, our export volumes did not change very much in the last 25 years (about 20 MT/year). We were losing market share to emerging grain-growing regions, as they were not only increasing crop-yields but also improving their crop-quality.

After decades of accusations levelled at the CWB that it was holding back our grain-economy, we had finally privatized the much-hated institution. It has been a decade already, but we have seen no increase in our wheat exports, thus continued decline in our global market share – in our view, not very surprising. Through privatization, assets had changed hands, but the system remains the same; our wheat exports are still in bulk, with the same incentive-mechanisms and trading-practices in place.

We now have more grain-companies engaged in wheat-trades, at both ends, buying from farms and selling to world markets, but wheat flows through the same bulk-systems where all grain companies share terminal capacity, inland or coastal. These grain-companies are price-takers from global markets but price-setters for farmers, in theory competing among themselves but in practice with enough market-power to squeeze producer-margins to cover their costs, with appreciable profit-margins.

After decades of highly charged debates, we managed to privatize the CWB without giving any thought to the structure of the industry that would emerge in its place. In essence, we replaced a *public-monopsony* with a *private-oligopsony* without giving any thought to how that oligopsony would function in practice, particularly when the main crops being liberated (wheat-barley) were captive to a bulk-system, which was shared among the members of the oligopsony, giving them too much market power.

As a result, farmers became price-takers from a handful of grain-companies that had little incentive to compete to outbid each other when they were all price-takers from global markets, with similar and transparent cost structures. They shared the same bulk-system where the terminal-capacity they controlled dictated their respective export volumes. None had any technology or handling advantage to differentiate themselves, but every incentive to buy each other out for larger market share.

In the last 10 years since CWB losing its monopsony power over wheat, we have not come across any empirical evidence that what producers' take from overseas wheat exports has increased. The benefits of the newly privatized system are generally couched in abstract terms that producers have been freed from a monopsony to gain their freedom in a market economy, but with no evidence of any material improvement in producer-margins, nor any increase in our wheat-export volumes.

However, what we fear most may be yet to come. In Canada we hear little about the competitive threats our wheat exports face from emerging grain-regions. As noted already, they are increasing their yields and quality standards, evident from our shrinking global share in wheat trades. Prices have been holding if not increasing with growing demand, but we remain vulnerable in trying to compete from a much higher cost-base, and slowly losing our grade-advantage with others catching up.

Based on our global observations, our outlook on wheat-exports was grim for the 2021-22 crop-year. We had much less to sell due to drought but by mid-January (regarded mid-crop-year) our wheat sales were down 40% and durum down 35% compared to the same time previous year. The prospects now look much better with the Russia-Ukraine War breaking out, but obviously, we would be irresponsible to be counting on wars every year to maintain our wheat-durum export volumes.

This does not mean our wheat-durum exports are in jeopardy. Instead of just relying on our traditional advantages in high-quality and well-classified wheat-grades, we can go much further in differentiating ourselves in the grades and varieties we grow, and how we ship them identity-preserved. We have the soil conditions, as well as advanced agronomy and technology at our disposal for a more rigorous value-driven diversification strategy, even within wheat-durum let alone in other types of crops.

We have been focusing on wheat as it constitutes 50% of our export volumes but let us also take a brief look at canola, our second largest crop with 25% export-share. The shift to higher-value canola was an escape from CWB's monopsony and started modestly with exports to the US by truck or rail. As overseas exports increased, canola also got trapped in bulk-systems just like wheat, with the added vulnerability of us gaining two-thirds share of global exports in a relatively narrow trade-domain.

The moral of the story is simple: to lift our grain-exports to a higher-value plateau, we must reduce our dependence on bulk-systems. Thus, we should have paid as much attention to this issue as to abolishing the CWB. Custodians of bulk-systems have too much market power, thus producers must try to find direct-sales channels if they wish to increase their margins. This can only come from specialty crop grades or varieties, typically sold in smaller quantities, which bulk-trades are not particularly suited for, as they are driven by volume. Thus, in addition to developing direct-sales channels, our strategy has two other dimensions: specialization and containerization.

Our panacea: specialization and containerization

We always think of grain-trades taking place through grain-companies. Going back to the 19th century, farmers sold their produce in nearby markets, or crops to mills or processors. In time we came to think that direct-sales were primitive, now best left to grain-companies to buy from producers, consolidate, and sell to end-users. Even though direct sales were still taking place, we refused to acknowledge their virtues; furthermore, information channels had developed to make them so much easier.

Grain farming had advanced to grow a vast variety of crops for domestic markets, but we believed it was best to stick to what we always exported, wheat and barley, and later canola, if only to escape the monopsony we had created to manage the other two. While we could have shifted to specialty crops, we stuck to the same export-staples, with wheat and canola representing 75% of our export-volumes, in both cases facing competition from emerging grain-regions with lower cost-bases.

Not too long ago, the only way to carry grains across oceans was by bulk-ships, and to ports by rail in hopper-cars. We built country-elevators to consolidate and coastal-terminals to store and load ships. We regarded our bulk-system as the most efficient means of transporting grains, ignoring that grain-trades had been getting containerized in other parts of the world for years. We were overlooking the obvious advantages of point-to-point intermodal-systems, and it is time we wake up.

Direct Sales: As we discussed in a recent post, direct-sales from producers to corporate-buyers would not be anything new. They have long been the main-stay of domestic grain-trades, and in time also expanded across the border to the US. Corporate buyers competing among themselves set the best possible market-prices producers can get, establish benchmarks for consolidators or intermediaries, and achieve alignment between what end-users need and what farmers produce.

By bringing attention to direct-sales, we are not suggesting that all grain-trades take that form across North America, but direct-channels impose market discipline on prices across the board. There are grain-companies that add value to the supply-chain by performing handling, consolidation, or processing functions as needed. But where corporate-buyers can reach producers directly, opportunistic traders are cut out from the grain-chains, leaving higher-margins for buyers and sellers to share.

These direct-sales channels do not naturally extend to overseas markets due to familiarity or information gaps. This is where we come in as an information-portal, bridging the gap by promoting the virtues of our grain-economy to attract overseas buyers to procure the crops they need directly from production-sources. This may not lead to one-click-sales, but at least it will go along way facilitating-trades by paving the road to contract negotiations among the parties we attract to our portal.

Specialization: As we emphasize in many of our articles, an unintended consequence of bulk-trading is limited crop variety. Despite our highly sectionalized bulk-systems, traders are driven by volume; more of the same crops are in their best interest, and they tend incentivize producers accordingly. This is evident from wheat and barley accounting for 75% of our exports, a much narrow range than what we produce; thus, trading in bulk puts a lid on the crop-diversity of our grain export portfolio.

By opening direct-sales channels, we will not only free producers from the margin squeeze they are under through bulk-channels, but also give them an opportunity to diversify to higher-value crops – grow and export a much greater variety of crops and grades. The main reason our current exports are so skewed to a few staples is not that the world does not need a greater variety, but because they do not have access to the full range of what we can produce and export in smaller quantities.

With all the advances in science and technology, we have the capacity to diversify our production much further with greater varieties of crops, higher grades of the varieties we are known for, and even special-crops with custom-attributes. Perhaps buyer-specifications can never be met to the same extent as in manufacturing, but *precision-farming* has already reached a level to be contemplating *grow-to-order* practices. This is what we see in the *value-driven-diversification* we are promoting.

Containerization: The diversification and specialization we foresee for the grain economy can never be realized through bulk-systems. Even if their custodians saw the virtues of these trades and shifted their attention to them, the basic bulk-system infrastructure is not equipped for these types of specialized grain-trades. The only way to realize this vision is through containerization, which we have the capacity for but so far did not see the need to put it to use in grain-trades, other than in pulses.

Now the time has come to introduce containers into other grain-trades, only if we could overcome our fixation that “bulk” is the most efficient and least cost transport option. In rail, per tone costs are equalized between hooper-cars and containers, and containerization eliminates the need for inland and coastal grain-terminals. On the ocean side, per ton shipping costs are already lower on containerships than for even the largest bulk-vessels. Most significantly, buyers realize huge logistics and storage cost savings in containers, not to mention identity-preservation benefits.

We have been ignoring these realities and refusing to learn from other parts of the world that have already realized the virtues of containerization and advances made in intermodal-systems. If we care to look at grain-trades across the European Union, we will see the extent of containerization that has already taken place. This trend has also extended across Eurasian trade-routes to Asia Pacific. Most if not all grains China, world’s largest grain-importer, gets from its west is in containers. It will not be long before we see the same trend across the Pacific for our grain-exports.