

Go Malting

A Canadian Wheat Board publication for barley growers



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Malting barley: *CashPlus* and the pool

Ask about your choices when offering your barley for selection. There are two pricing alternatives: *CashPlus* or the designated barley pool. *CashPlus* may be particularly attractive if it's offered before seeding and you want to lock in a fixed price for some of your malting barley production, although these contracts are not always available. Whether it's the pool or *CashPlus*, each option offers various benefits you'll want to consider before deciding what's right for your business.

CashPlus

You may want to sign a *CashPlus* contract if you feel the guaranteed price provides an attractive return and you want cash flow shortly after delivery.

The concept behind *CashPlus* is simple. It works as a three-way transaction. First, the CWB negotiates sales price and volume with selecting companies. This establishes a guaranteed in-store price for farmers. Then, selecting companies and farmers directly negotiate a contract between themselves. Selectors and farmers have the flexibility to negotiate a basis level that is deducted from the guaranteed price set by the CWB. This basis includes freight, elevation and cleaning and may include quality premiums and discounts. Subtracting your basis from the guaranteed price set by the CWB will determine your net price.

Pooling

You may want to commit your malting barley to the pool if you are looking for proven risk management and a price that smooths out the highs and lows of the CWB's year-round sales activity into all markets.

Pooling helps manage the risks associated with pricing your grain in complex and volatile markets. Farmers that use the pool receive the same total payment for the same grade of grain, regardless of when the grain is actually delivered during the crop year. All revenue, less marketing costs, is returned to pool participants.

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The Canadian Wheat Board
P.O. Box 816 Station Main
Winnipeg, Manitoba R3C 2P5

E-mail: questions@cwbc.ca

In summary, *CashPlus* offers:

- a guaranteed cash price established by the CWB that reflects market values.
- the opportunity to directly negotiate the premiums and discounts that make up your basis.
- cash flow benefits, with full payment of the guaranteed price within 10 days of settlement.
- potential additional payment to farmers at the end of the crop year based on spreads between the guaranteed price and actual CWB sales returns for malting barley. Any sales surplus is pooled, and participants receive an average per-tonne payout, less costs.
- storage paid on deliveries made after December 31 and calculated from December 1 or the contract date, whichever is later, to the delivery date.
- storage rates of five cents per tonne for the first 90 days and nine cents per tonne over 90 days.
- negotiable delivery periods. They are: pre-December 31, January to February, March to April and May to July.
- pre- and post-harvest contracts. Pre-harvest contracts may contain an "Act of God" clause and quality protection.

Tips:

- Read your contract carefully. Know your terms and conditions.
- Farmers delivering malting barley using *CashPlus* contracts are not eligible for future initial price adjustments, interim or final payments.
- *CashPlus* contracts are not eligible for Producer Payment Options, additional protein premiums.
- There is a 100-per-cent delivery requirement.



Visit www.cwb.ca for information on how malting barley is selected and for a printable checklist you can use when signing your contract.

In summary, pooling offers:

- risk management that helps smooth the highs and lows of the marketplace.
- two types of delivery periods. Informational delivery periods give you a general timeframe when you can expect to deliver, while binding delivery periods provide a firm date by which the selector is obligated to take your grain.
- an initial payment when you deliver your grain, followed by adjustment, interim and final payments.
- storage paid on deliveries made after December 31 and calculated from December 1 or the contract date, whichever is later, to the delivery date.
- storage rates of five cents per tonne for the first 90 days and nine cents per tonne over 90 days.
- protein payments (two-row only). These are made on 12.5 per cent or lower and range from \$1 to \$5 per tonne. Protein is reported through participating handling companies.
- additional payment of \$3 per tonne through the value-added incentive program where deliveries are made direct to the eligible maltster. This is paid monthly.

Tips:

- Read your contract carefully. Know your terms and conditions.
- Ensure your confirmation letter states the specifications that you negotiated.
- You can cancel your contract within 14 business days if it has been altered by the handling agent/selector for any reason.
- Selector has 14 days to notify you of any changes to the contract status (for example, if it has been accepted). During this 14-day period, you cannot offer to any other parties.
- Storage is not paid on rejected barley.
- Submit recheck samples to ensure your grain is still of malting quality.
- The handling company will contact you about delivery. You have 21 days to deliver once your barley is called.
- There is a 95-per-cent delivery minimum.

Top malting barley growers honoured

Six Prairie producers have earned top honours for their ability to grow high-quality malting barley that consistently meets the exacting standards of brewers, maltsters and consumers.

In a ceremony that took place this winter, the 2009 Canadian Malting Barley Grower Recognition Program recognized the expertise of:

- **Brent and Brenda McBean**
Strathmore, Alberta
- **Peter Bokenfohr**
Picardville, Alberta
- **Bill Slemko**
Hussar, Alberta
- **Brian Acton**
Lemberg, Saskatchewan
- **Gary Southgate**
Battleford, Saskatchewan
- **Ron Waldenberger**
Marquis, Saskatchewan

Malting barley is selected on the basis of quality. That quality is what makes beer and spirits containing Canadian malt the world's best. The excellent reputation of malt made from Canadian malting barley is dependent on the good practices of its growers. The program highlights these best practices and honours the best growers.

"Malting barley is a demanding, specialized crop that requires farmers to follow precise agronomic methods and exacting storage practices," said Michael Brophy, president and CEO of the Brewing and Malting Barley Research Institute (BMBRI). "Every brewer and maltster looks for different qualities and specifications in malting barley and is eager to find farmers who can meet their requirements."

Fifteen malting barley growers were nominated in their respective regions across Alberta, Saskatchewan and Manitoba. Nominations were based on growers' total management practices, including: pre-planting planning, growing, harvesting, storage and marketing. From the 15 nominees, the six outstanding district producers were named.



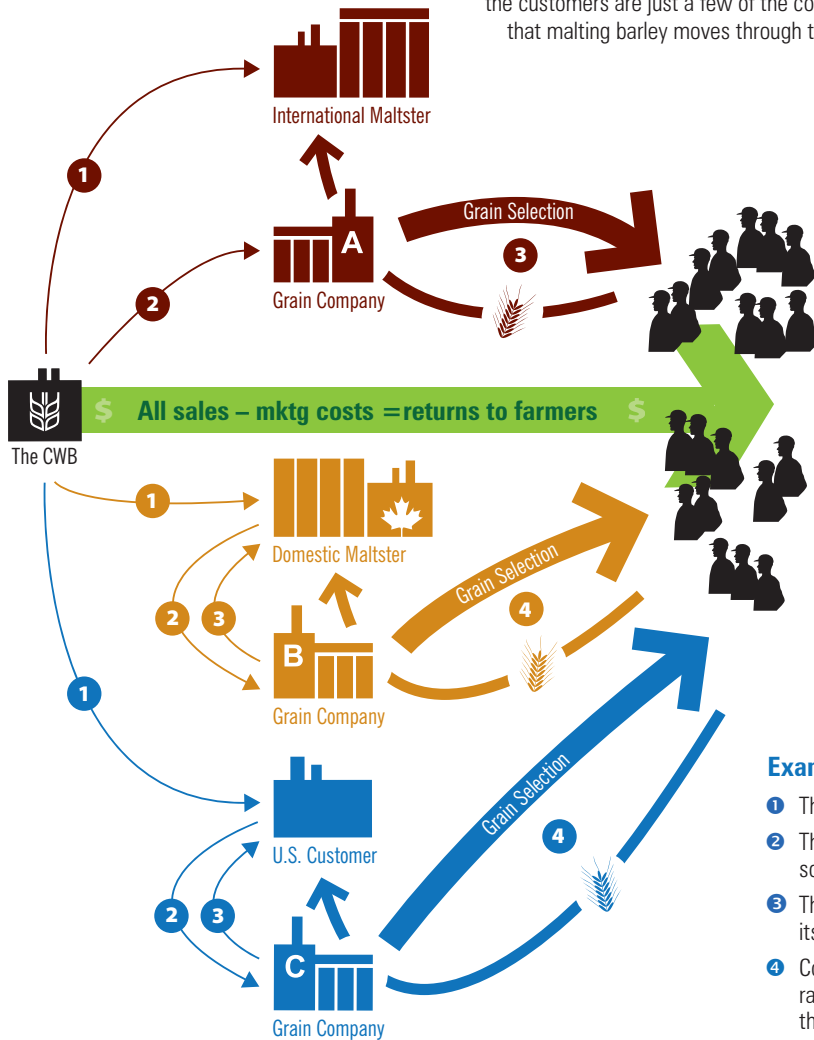
IT'S BEEN EVERYWHERE, MAN

Your barley is well travelled. That's because maltsters around the world recognize its superior quality. It's the premium ingredient in beer from Canada to Japan. South Africa. Vietnam. The United States. Peru. Ecuador. China...

For more information go to www.cwb.ca

Malting barley delivery: The players, the destinations, the factors

If you've had your barley selected, you've probably spent some time wondering when that grain would move. There are many different factors that feed into that equation. Where the grain is going, what company is sourcing the barley (and from where) as well as the volumes and delivery periods requested by the customers are just a few of the considerations. Pictured below are some of the most common ways that malting barley moves through the supply chain.



Example one:

- 1 The CWB sells 35 000 tonnes to China.
- 2 Once the sale is made, the CWB calls for tenders from grain companies to see who will move the barley at the lowest cost. Grain Company A wins the tender.
- 3 Company A decides which region and farmers to pull the grain from and moves it to port position.

Example two:

- 1 The CWB sells 20 000 tonnes to a domestic maltster.
- 2 The maltster works with its selectors at Grain Company B to source the grain.
- 3 The domestic maltster sets volumes and delivery periods based on its production and business needs.
- 4 Company B looks at several factors, including logistics issues like rail car availability, then sources and ships grain from farmers based on the volumes, quality and delivery periods requested by the customers.

Example three:

- 1 The CWB sells 50 cars of malting barley to an American customer.
- 2 The customer works with its selectors at Grain Company C to source the grain.
- 3 The U.S. customer sets volumes and delivery periods based on its production and business needs.
- 4 Company C looks at several factors, including logistics issues like rail car availability, then sources and ships grain from farmers based on the volumes, quality and delivery periods requested by the customers.

Matching selections to sales

Two years of large, high-quality crops combined with market price volatility have posed some fresh challenges for the barley industry.

Managing risk is more important than ever. For instance, selection now occurs throughout the year, as opposed to just in the fall. The CWB now requires grain companies to ensure that selections are matched with sales as they are made throughout the year. This prevents over selection and protects farmers' pool returns.

"Farmers want some price certainty and they also want to know their malting barley will be sold at a reasonable premium to feed," noted Ward Weisensel, the CWB's chief operating officer. "Having unplanned inventory come into the pool at the end of the year jeopardizes both of those things."

Weisensel says the dangers of over-selection were highlighted in 2008 when world markets started to melt down and Prairie farmers produced more than three million tonnes of selectable barley versus world trade of 4.5 million tonnes.

Pat Weatherald, the CWB Farm Business Representative for south central Saskatchewan, said the policy of ensuring selections are matched to sales has sometimes resulted in confusion at the elevator. In many cases, the confusion is more the result of rumour than fact, he added.

"I get questions from farmers throughout the year who phone to say they've heard we're not making sales and that's why they can't get their barley selected," Weatherald said. "In fact, we work with export customers, domestic maltsters and other selecting companies to make sales throughout the year and as those sales are made, grain companies have additional opportunities to select."

Weatherald said the benefits of matching selections to sales include protecting pool returns and providing more certainty that farmers will be able to deliver their barley by July 31.

This new approach also makes it even more important for farmers to sign up the correct tonnage and avoid over-delivery. This ensures you will get to deliver your malting barley, and get paid malting barley prices for it.

In situations where the market has dropped, post-harvest CashPlus may be used exclusively in order to ensure all possible sales opportunities are captured while overall pool returns are protected.

"Our goal is always to conduct our sales program in a way that maximizes the benefits to producers," Weisensel said.