Marketing my Grain – Contracting

What should I be aware of in wheat and barley contracts that are offered?

- It is imperative that you read and understand all terms and conditions in any agreement offered by a grain company. Even if you are familiar with grain contracts from past marketing experience, different companies may have different terms and conditions. Likewise, contracts for different crops or even varieties of a particular crop may have clauses that are specific to that crop and/or variety.
- Generally, farmers are familiar with the elements included in most grain contracts, such as price, quantity, quality and delivery period. However, many grain contracts include other elements that are similar, including:
  - Definition of base grade – Although all contracts will define a base grade, different companies may base their contract offerings on different base grades, especially in the emerging open wheat market.
  - Underlying futures market – Like base grades, the underlying futures market may also vary between grain companies for similar grades of wheat. Some common futures markets are Chicago, Minneapolis and Kansas City, as well as the new wheat and durum futures markets on the InterContinental Exchange (ICE).
  - If a farmer is unable to deliver the base grade stipulated in the contract, the grain buyer may refuse acceptance of the offered grade or may offer to buy it for a premium or discount in effect at the time of delivery.
  - It is the responsibility of the farmer to deliver the grain in the agreed-upon time period. In the event the buyer cannot receive the grain in the agreed-upon time period, some contracts allow the buyer another window of time to arrange for delivery or to designate an alternate site for delivery. In the event the buyer can still not take delivery of the grain, some contracts allow the buyer to release the seller from the obligations of the contract.
  - Generally most contracts defer to the Canadian Grain Commission in the event of a disagreement over the grade of the grain.
  - Many contracts allow the buyer to allocate the proceeds of the grain sale to settle accounts owing to the company by the farmer.
  - Many contracts outline a process in the event the *Marketing Freedom for Grain Farmers Act* is rescinded or otherwise changes. This is to address any uncertainty regarding any legal action that still may be unsettled prior to the grain company offering these contracts to the marketplace.
- As a farmer, you need to be aware of the differences between contracts from different companies. If contracts use a different base grade, it makes it difficult to compare prices between companies.
- Contracts in the marketplace have been prepared by grain companies and may be written in their favour. Farmers need to realize the obligations they are agreeing to when signing a contract.

What happens if my grain does not meet the contract specifications for quality and/or protein?

- If grain does not meet quality specifications, the elevator company may refuse delivery or may choose to accept the grain and apply discounts or premiums, depending on the quality.

- Discounts and premiums may change daily and will be applied at the time of delivery. At this time, we are unaware of any available contracts that outline discounts and premiums in advance.
- It is expected that protein will become a more prominent component in wheat pricing.

How enforceable are these contracts?

- These contracts are legally binding and subject to appropriate provincial and federal law. Consequently, both parties have access to the courts in the event of an irreconcilable dispute.

Are there standardized contracts available?

- At this point in time, contracts are not standardized. If farmers or grain companies desire standardized contracts, it would be advisable to work with industry groups to develop contract templates.

For grain contracts that are based on US futures markets, who is responsible for currency exchange risk?

- Currently, grain companies offer contracts to farmers with prices in Canadian dollars. Consequently, if they are using a US exchange to manage their price risk, they would be assuming currency exchange risk. Currency exchange risk can also be managed with hedges on the Canadian dollar on futures markets.