The Potential Direct Economic Impact of Harmonization for a Saskatchewan Wheat Producer

Using CGC data from the Harvest Sample Program from the 2017, 2018, and 2019 crop years (see table below), and possible grade price spreads at the primary elevator, we can illustrate the potential direct economic impacts on Saskatchewan wheat producers from the harmonization of primary and export test weight standards at export tolerances.

Current CWRS grade price spreads between wheat of similar protein in central Saskatchewan are quite narrow. The price differential between a #1 CWRS and #2 CWRS is about $0.05 per bushel ($1.84 per MT), and between a #2 CWRS and #3 CWRS is $0.25 per bushel ($9.19 per MT). A loss of two grades from #1 CWRS to #3 CWRS due to test weight at current price spreads would be $0.30 per bushel ($11.02 per MT).

Based on the most recent Saskatchewan 5-year crop year average producer deliveries of 7.975 MMT of spring wheat into the licensed elevator system, even with the small price differential between a #1 CWRS and a #2 CWRS of similar protein, if about 6% of the wheat (based on the table below) delivered by producers into the licensed handling system is downgraded at the primary elevator from a #1 to a #2 CWRS, the direct economic hit to Saskatchewan wheat producers in aggregate could be about $880,000. If 6% of the wheat delivered by producers into the licensed handling system was downgraded two grades from a #1 to a #3 CWRS, based on the most recent 5-year crop year average producer deliveries of 7.975M MT of spring-wheat into the licensed elevator system, the direct economic hit to Saskatchewan wheat producers in aggregate could be over $5.2 million.

Price spreads in recent years between #1 CWRS and #2 CWRS have sometimes been much wider than currently. If the price spread between a #1 CWRS and a #2 CWRS of similar protein is $0.20 per bushel ($7.35 per MT), the potential aggregate cost, using the same 6% delivery downgrade from the CGC data (based on the table below), to Saskatchewan producers could be over $3.5 million for a single grade downgrade.

For an individual farm that produces 100,000 bushels of spring wheat that would all grade #1 CWRS under the current primary test weight tolerances, it is possible that the entire production could be downgraded solely due to the application of the export test weight minimums. If the entire crop was downgraded one grade due to test weight, with a $0.05 per bushel grade differential, the loss in revenue at this discount would be $5,000. With a grade discount of $0.20 per bushel from a #1 to a #2, the cost could be $20,000. The costs could be even greater with the possibility of being downgraded multiple grades or if grade price spreads are wider.

Losses could be even relatively greater for durum both at the farm level and in aggregate if harmonization of differing durum primary and export tolerances goes forward, given historically larger grade price spreads at times (in 2017, the grade price spread difference between a #2 CWAD and #3 CWAD was at times as large as $2.00 per bushel or $73.49 per MT) and the higher probability of samples being downgraded multiple grades as the table below indicates is possible.

Harvest Sample Program Data

Grade – TWT only	% Remain in grade	% Changed grade
1 CWRS	94.3%	5.7%
2 CWRS	93.8%	6.2%
3 CWRS	92.1%	7.9%
CW Feed	100%	
1 CWAD	86.5%	13.5%
2 CWAD	61.1%	3 CWAD 18.8%, 4 CWAD 20.1%
3 CWAD	78.8%	21.3%
4 CWAD	91.6%	8.4%
5 CWAD	92.5%	7.5%

*Please note that all changes to grade were downgrades.

(Table source: Wheat Sub-Committee Meeting Minutes March 12, 2020, Agenda Item #5)