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The Canadian Wheat Board: Government Guarantees and Hidden Subsidies?*

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The operations of the Canadian Wheat Board (CWB), a state trading enterprise, have generated controversy over the years, partly because of an alleged lack of transparency in its operations. This study examines one aspect of operations that is not well understood – the government guarantee of CWB borrowings and export credit sales. This special privilege allows the CWB to generate a "financial cushion", or non–market based revenue, that it can use to enhance returns to producers, discount export prices, or pay administrative expenses. Although recent WTO dispute settlement decisions concluded the CWB does not act inconsistently with some WTO rules, the July 31, 2004 WTO Doha Round framework agreement addresses these potential trade-distorting practices of the CWB.

Keywords: Canadian Wheat Board, financial cushion, state trading enterprise, World Trade Organization

Introduction

The December 15, 2003 announcement by the Canadian Wheat Board (CWB) of a C$85 million wheat pool deficit added fuel to the long-standing debate about the ability of state trading enterprises (STEs), and specifically the CWB, to engage in undisciplined trade-distorting practices. The detractors of STEs note that, while members of the World Trade Organization undertook specific obligations on export subsidies and trade-distorting domestic subsidies, the Uruguay Round Agreement on Agriculture (URAA) contains no meaningful disciplines on STEs.

The U.S. wheat industry has persistently claimed that the CWB is able to undercut commercially offered export prices in select markets or sell higher-quality wheat at discounted prices, but the industry can offer only limited anecdotal evidence to support those claims. The CWB claims it has the ability to price discriminate in different markets and that it is able to return premiums to producers by virtue of its single-desk selling and other privileges (3, 11).

Even if one assumes global commodity markets are competitive and STEs do not have market power, "state trading enterprises are an enigma" (12, p. 415). Remarkably little, either theoretical or empirical, is actually known about the alleged trade-distorting effects of state trading enterprises. A better understanding of these effects is crucial because STEs often control a significant share of world commodity trade. In this case, the CWB historically has been the world's single largest wheat exporter, accounting for 15–20 percent of world wheat exports.

The decisive point in this controversy is the fact that the CWB, as an STE, is granted unique and special privileges by the Government of Canada (GOC) that allow it to operate in a manner fundamentally different from a private commercial enterprise. This possibility exists because the CWB can generate a "financial cushion", not from its market-based activities but as a result of its use of the special privileges. The financial cushion encompasses both explicit benefits (for example, additional non-sales revenue) as well as implicit benefits (for example, reduced financial risk), and can be used in various ways − to enhance returns to producers, to discount prices in export markets, to pass on benefits to processors, or to pay administrative expenses (see 7 and 9).

In recent years farm groups in Canada have begun analyzing CWB operations, especially the financial and credit operations, demanding better accountability and transparency. This article builds on those efforts, using the limited data available from the CWB annual reports and the GOC's public accounts, to examine one of the CWB's special privileges – the GOC guarantee of CWB borrowing and export credit sales. The article examines how the CWB makes use of this privilege to generate the financial cushion and how the CWB potentially uses the cushion in its operations and sales. The final section discusses the recent WTO panel on the CWB and the implications for reform of the CWB of the July draft framework agreement from the WTO Doha negotiations.

Generating a Financial Cushion from Government Guarantees

The CWB has been granted unique privileges and special rights by the GOC, including monopsony procurement and monopoly selling rights for wheat and barley, a government-guaranteed initial price, and preferential access to the grain handling and transportation system. Other perhaps less well-known privileges are the GOC guarantee of all CWB borrowings and the guarantee of principal and interest on export credit sales.[1]

Preferential Borrowing Activity

The CWB borrows funds to finance various activities, including the initial and interim payments to producers, the cash advance programs, and investment activities. These borrowings are undertaken with the approval of the minister of finance (2, 2000/01 report, p. 30). From 1994/95 to 2002/03, annual CWB *net* borrowing ranged from C$6.2 to C$7.6 billion, figures that exceeded annual sales revenue each year over the same period (table 1).

Table 1 CWB Borrowings and Repayments[1]

Period	CWB sales revenue	CWB net borrowing	CWB gross borrowing	CWB repayments	Balance on borrowing
	million C$				
1994/95	4,526	6,492	45,478	45,440	7,320
1995/96	5,829	6,459	51,904	52,848	6,377
1996/97	6,111	6,241	61,968	61,872	6,474
1997/98	4,758	6,716	184,969	184,745	6,698
1998/99	4,011	6,769	48,858	48,770	6,786
1999/00	4,457	7,264	85,663	79,119	6,544
2000/01	4,221	7,645	85,266	84,627	7,182
2001/02	4,379	7,336	31,185	30,618	7,749
2002/03	3,340	6,431	26,167	27,101	6,815

[1] The first two columns are from the CWB annual reports. Data are on an August 1–July 31 year. The last 3 columns are from the *Public Accounts of Canada,* which are on an April 1–March 31 fiscal year.

In addition, the *Public Accounts of Canada* reports the CWB's *gross* borrowings and repayments, which ranged on an annual basis from C$26 billion to C$185 billion. The CWB notes that "although it has an outstanding debt of approximately C$8 billion, the total volume of transactions during any given year will be many times this amount. The reason is the borrowing must be refinanced many times during the year to fund ongoing requirements" (6, p. 2).[2] This borrowing activity is extremely large compared to CWB sales revenue.

Guarantees on Export Credit Sales

The CWB is authorized to make credit sales mainly under two programs − the Credit Grain Sales Program (CGSP) and Agri-food Credit Facility (ACF). The CGSP (or its predecessor) has existed since 1952 and is by far the larger program, covering sales to customers who can offer a sovereign guarantee of repayment. The Government of Canada, in consultation with the CWB, approves country eligibility and individual country credit ceilings on an annual basis. Repayment terms cannot exceed 36 months, and commercial interest rates are charged. The ACF was established in 1995 to make sales to private importers. The GOC guarantees the repayment of principal and interest of all sales (receivables) under the CGSP and a declining percentage of all receivables under the ACF.

Credit sales have typically accounted for about 10–15 percent of total CWB sales, but in the late 1980s and early 1990s, the share rose to as high as 35 percent because of large sales to the Former Soviet Union (FSU). Beginning in the early 1980s, some customers failed to repay loans under the CGSP. Many loans, totaling billions of dollars, were rescheduled through bilateral and multilateral (Paris Club) initiatives, in some cases over a 25-year period.[3] Reschedulings applied to many major (and current) customers, including Brazil, Poland, FSU, Algeria, Egypt, Mexico, Iran, Iraq, and Israel. Reschedulings under the AFC were first reported in the 1997/98 CWB annual report but are much smaller than reschedulings under the CGSP and are not done through the Paris Club.

Debt Rescheduling, Accounts Receivable, and Net Interest Earnings

When the CWB makes a sale on credit, the credit is extended at a commercial rate. Then the CWB borrows at a preferential rate (because of the government guarantee) the same amount extended as credit. "With the CWB's borrowing power, it is able to borrow money at a lower rate of interest than the rate extended to the credit customer. As a result, the CWB benefits from the spread in interest rates in the form of excess interest revenues over interest expenses" (2, 2000/01, p. 27). This revenue is designated as "net interest earnings" and reportedly goes into the pool accounts. Over 90 percent of net interest earnings accrue from borrowings for past credit sales.

Net interest earnings have increased steadily and correspond with the growth in accounts receivable from rescheduled debt from past credit sales (table 2). These accounts receivable are treated as an asset in the CWB financial statements and serve as a basis for future borrowing. If debt is repaid, as in 2002/03, and accounts receivable fall, net interest earnings decline commensurately.

Table 2 CWB Accounts Receivable from Credit Sales, Net Interest Earnings, and Administrative and General Expenses (C$ million)

Year	Accounts receivable	Net interest earnings	Adm/ general expenses	Year	Accounts receivable	Net interest earnings	Adm/ general expenses
1983/84	3,012	15	25	1993/94	6,997	63	41
1984/85	3,684	-10	26	1994/95	6,727	58	44
1985/86	3,517	0	28	1995/96	6,654	81	43
1986/87	3,465	4	27	1996/97	6,418	83	47
1987/88	3,581	24	28	1997/98	7,023	76	54
1988/89	3,708	36	29	1998/99	6,876	73	57
1989/90	4,649	38	30	1999/00	7,207	71	64
1990/91	5,425	-2	33	2000/01	7,179	75	66
1991/92	6,214	52	35	2001/02	6,965	92	61
1992/93	6,772	77	37	2002/03	5,904	55	67

Source: (2).

Every year the debt goes unpaid means the CWB has to borrow more money to cover the unpaid principal and interest. For a private company trying to service unpaid debt, this would represent a financial burden, but for the CWB it represents a financial gain. One study estimated taxpayer costs from government guarantees at C$2.50 per ton, based on a CWB estimate of C$60 million in annual net interest earnings (8). "This suggests that if the Canadian taxpayer had only given more credit to Iran, Iraq, FSU, etc., the underwriting 'benefit' would far exceed the $60 million per year!" (p. 85) The role of the GOC in this process is paramount. If the GOC decided to write off the debt, it would have to make good on its guarantee to the CWB, which is now almost C$6 billion.

Debt Relief and Reduction Agreements

There is another financial aspect to the CWB credit sales. Beginning in 1990/91, as part of debt rescheduling and relief arrangements between the GOC, the CWB, and the foreign buyer, the GOC began to make direct payments to the CWB (table 3). "Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation [the CWB] by the GOC" (2, described in the financial notes, various issues).

A Canadian farm group, using data from Finance Canada, reports that payments from the GOC to the CWB between 1991 and 2000 were C$1.8 billion, mostly interest payments associated with debt forgiveness for Poland and Egypt (table 3) (16). The data reported by the CWB apparently do not include all interest and principal payments resulting from the debt forgiveness for (primarily) Poland and Egypt, thus understating the financial benefit to the CWB from the GOC's debt reduction programs.

Table 3 Payments Due to the CWB from the GOC under Debt Reduction Agreements (million C$)

Marketing year	CWB annual report	Finance Canada	AAFC
1991/92	NA	109	NA
1992/93	NA	180	NA
1993/94	135	138	157
1994/95	61	62	145
1995/96	131	347	349
1996/97	53	236	281
1997/98	57	173	205
1998/99	57	171	258
1999/00	58	175	238
2000/01	54	176	211
2001/02	31	NA	170
2002/03	26	NA	147(e)

NA = not available.

Sources: (1, 2, 16).

Agriculture and Agri-food Canada (AAFC) also reports on debt service or debt reduction payments to the CWB (1). These data are not strictly comparable to the other series because they also include grants for product promotion and market development. In its methodology section, AAFC notes that "The debt reduction payments to the CWB are incorporated in the federal time series from 1991/92" (1, June 2003, p. 75).

The increase in 1995/96 reflects a "contingent liability" of the GOC of C$138.9 million under the export credit guarantee. A contingent liability is recorded in the public accounts when it becomes likely that a government payment will be made and a reasonable and reliable estimate can be made.[4] This entry suggests there was a default (or multiple defaults) on payments under a credit sale and the GOC made a payment to the CWB to cover the principal. CWB annual reports do not include this payment. These conflicting sources of data reinforce the lack of transparency in CWB reporting.

How the CWB Uses the Financial Cushion

This section discusses how the financial cushion made possible by the government guarantees may be used by the CWB, although the lack of transparency in reporting makes this discussion a problematic exercise.

Net Interest Earnings and CWB Expenses

Net interest earnings from the credit receivables are recorded in the pool accounts to which the original credit sales related (13). The CWB Act specifies that net interest earnings are to be treated as a cost and "that such amounts be treated as charges or recoveries of operating costs" (2, 1999/2000 report, p. 63). The CWB charges its administrative and general expenses to the pool accounts. Beginning in 1988/89, with the exception of 1990/91 and 2002/03, net interest earnings have more than covered the costs of running the CWB (see table 2).

Net interest earnings in the four pools generally ranged from C$1 to C$5 per ton per commodity (table 4). The exception has been the feed barley pool, where allocated net interest earnings have recently ranged from C$8 to C$146 per ton. Because the CWB has historically treated them as a *negative* cost, net interest earnings have the accounting effect of reducing CWB costs. Since 1998/99 the large net interest earnings mean total operating costs for the feed barley pools have actually been *negative*.

Distortion from Net Interest Earnings

The large net interest earnings per ton for feed barley have arisen because feed barley exports have fallen sharply over the past five years, primarily due to a significant increase in domestic feed use from expanding livestock inventories. Net interest earnings do not vary greatly with the current size of the pool (because they mostly reflect past credit sales and rescheduled debt payments), so a smaller pool size translates into higher interest earnings per ton (table 5).

Table 4 CWB Operating Costs and Net Interest Earnings (C$/ton)[1]

Item	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02 old	2001/02 new	2002/03
Wheat									
Net interest earnings	-4.26	-3.30	-4.30	-4.15	-2.91	-4.18	-5.23	5.23	4.54
Total operating costs	5.15	5.85	3.39	3.93	5.40	5.14	1.14	19.73	24.02
Durum wheat									
Net interest earnings	-2.35	-2.29	-2.81	-2.05	-1.90	-2.21	-3.68	3.68	2.24
Total operating costs	6.56	5.18	4.57	17.29	21.32	23.97	17.35	32.64	26.16
Feed barley									
Net interest earnings	-4.71	-3.15	-18.39	-22.34	-7.90	-14.11	-145.54	145.54	137.70
Total operating costs	2.71	7.52	3.13	-11.19	-0.51	-2.45	-135.62	2.53	16.90
Malting barley									
Net interest earnings	-1.75	-1.27	-2.01	-2.24	-1.69	-1.03	-0.92	0.92	1.52
Total operating costs	0.48	0.97	1.53	1.37	3.16	5.15	5.46	6.98	10.82

[1] In the 2002/03 annual report, the method of reporting revenue and costs was substantially changed, especially the items included as costs, based on recommendations by Canada's auditor general. Both methods are reported for 2001/02 for comparison. For example, the category of "total operating costs" was replaced by "direct costs". Net interest earnings are reported as a positive. The last two columns reflect this change. See the CWB 2002/03 annual report, page 25, for an explanation.
Source: (2).

The 2001/02 feed barley pool illustrates how net interest earnings can lead to market distortions (15). At the end of the year, the feed barley pool had shrunk by over 85 percent to only about 54,000 tons. With so few sales, per ton net interest earnings were incredibly large − C$276 per ton, considerably larger than the value of the barley. To keep the total payment to producers in line with the Pool Return Outlook (the PRO, a forecast producer return for each class in each pool) that had been projected throughout most of the year at C$180 (table 6), the CWB directors decided put about C$5.5 million (out of almost C$8 million in net interest earnings) from the feed barley pool into a contingency fund (4).

Table 5 Feed Barley Pools[1]

Fiscal year	Sales revenue	Net interest earnings	Sales revenue	Net interest earnings
	million C$		*C$/ton*	
1994/95	120.3	4.7	113.54	4.45
1995/96	266.6	6.0	210.30	4.71
1996/97	386.0	7.7	158.18	3.15
1997/98	32.7	4.8	124.84	18.39
1998/99	38.3	6.2	138.39	22.34
1999/00	90.3	5.3	134.38	7.90
2000/01	63.2	6.4	139.13	14.11
2001/02	8.9	7.9	162.86 [2]	145.54
2002/03	6.7	5.5	168.28 [3]	137.70

[1] The 2001/02 data are from the 2002/03 annual report, which uses the new accounting procedures. The 2001/02 report showed sales revenue at C$9.5 million and C$174.82 per ton.
[2] C$130.85 was placed in a contingency fund.
[3] C$127.89 was placed in a contingency fund.
Source: (2).

Some farmers complained that the CWB kept the PRO too high to attract barley into the pool (the PRO was generally above other feed barley prices through much of the year), while others said that the CWB sold into low-priced export markets, and others believed that farmers who delivered to the feed barley pool should have kept all the revenue (14). The CWB said the PRO reflected its judgment as to what was a "reasonable return" to the feed barley pool, based on factors such as malting barley prices, domestic feed prices, and expected exports (5).

The controversy surrounding the feed barley pool in 2001/02 was basically repeated in 2002/03. How the CWB may use net interest earnings in export pricing decisions or determining returns to producers remains unclear. One study concluded, "Therefore, it can be argued that a few Western Canadian farmers are the beneficiaries of a government-sponsored program (guarantees) that *contributes to or supports the prices received via the CWB pools"* (15, pp. 52–53; italics added).

Table 6 Barley Prices, Crop Year 2001/02

Month	PRO [1]	Winnipeg [2]	U.S. [3]	U.S. [4]	EU export	Black Sea export
	C$ per metric ton					
Feb 2001	146	133	106	172	NA	NA
June 2001	149	135	105	160	NA	NA
July 2001	162	152	105	164	155	149
Aug 2001	165	156	106	163	164	147
Oct 2001	180	160	109	171	161	153
Dec 2001	180	160	113	170	166	164
Feb 2002	180	158	114	172	161	161
Mar 2002	180	154	113	168	150	151
April 2002	180	140	112	161	147	143
May 2002	180	140	109	160	141	136
June 2002	180	154	108	158	135	132
Season avg.	180 [5]	156	109	165	153	148

[1] No. 1 CW, Vancouver.

[2] Average closing prices, Winnipeg Commodity Exchange, for the furthest out contract (December 2001, March 2002, and July 2002).

[3] No. 2, feed, Duluth.

[4] No. 2, feed, Portland.

[5] Total feed barley pool payment.

Sources: Economic Research Service, USDA, *Feed Outlook*, various issues; Foreign Agricultural Service, USDA for EU and Black Sea prices; CWB PRO announcements from its website; Canada Grains Council, *Statistics Handbook*, various issues; Agriculture and Agri-food Canada market reports.

Commerce and ITC Findings on the Government Guarantees

In the 2003 countervailing duty investigation against Canadian wheat, the U.S. Department of Commerce found that the combined effect of the government guarantee of the CWB initial price, borrowing, and lending confers a benefit to wheat of 4.94 percent; that is, the value of subsidy was equal to about 5 percent of the value of the wheat (17).[5] Commerce noted that without the GOC's guarantee, lenders would examine the quality of the CWB's pool of accounts receivable to ascertain the appropriate credit rating for the CWB, and the CWB would have to borrow at a higher rate. The accounts receivable would likely become non-performing assets because some of this debt is 25 years old and is owed by financially risky countries. The CWB's operating costs would no longer be "paid for" by net interest earnings and producer returns would be lower.

Another study estimated the benefit of the GOC guarantee of CWB borrowing at C$107 million in 2000, assuming the government guarantee allows the CWB to borrow at a lower rate than private borrowers (10, pp. 3-21–3-23).

Prospects for Reform of STEs in the WTO

Because of the government guarantees, the CWB is able to generate and use a financial cushion potentially worth, in the extreme feed barley case, many dollars per ton. The CWB can use the financial cushion as a domestic or export subsidy by enhancing returns to producers or discounting export prices by not charging full value for quality or services (7, 9). These practices can affect competition in world markets.

Are the current disciplines in the WTO sufficient for addressing potential trade-distorting activities of STEs such as the CWB? Or do the practices of the CWB that flow from the government privilege require new WTO disciplines? Three possible WTO disciplines are currently available for addressing potentially trade-distorting practices of STEs – GATT Article XVII, export subsidy provisions of the URAA, and the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement). Recent developments in both the Doha Round negotiations and dispute settlement panels also point to possible directions for reform.

Current WTO Disciplines

The United States attempted unsuccessfully to use one current discipline, GATT Article XVII, which governs STEs, to address CWB export practices.[6] (See the technical annex for the relevant portions of GATT Article XVII and the *Ad* note.) The United States argued that the CWB "export regime", or the legal framework that grants the special and exclusive privileges, including the government guarantee on CWB borrowings and credit sales, necessarily resulted in export sales that were inconsistent with GATT Article XVII, which requires that STEs make "purchases or sales solely consistent with commercial considerations." The panel disagreed and concluded that the United States had not demonstrated that CWB export sales were inconsistent with the commercial considerations standard of Article XVII (21).

Following appeals by both the United States and Canada, on August 30, 2004 the WTO appellate body upheld the panel findings with respect to the CWB's compliance with Article XVII (20). Both rulings agreed that STEs can use their privileges while engaged in commercial activity, subject to the limitation on discriminatory treatment, but neither ruling shed much light on the definition of "commercial considerations".

Another potential avenue for disciplining STEs can be found in Article 10(1) of the URAA, which deals with circumvention of export subsidy commitments, including through use of "non-commercial transactions" (see the technical annex). The financial cushion provided through the GOC guarantees on borrowing and lending may allow it to export using non-commercial transactions. The U.S. Department of Commerce finding in the CVD investigation supports a claim of non-commercial exports by means of a subsidy resulting from the government guarantees. But the lack of a definition in Article 10(1) and the absence of data on actual CWB sales that could be clearly demonstrated as being "non-commercial" suggest that a circumvention case against the CWB would be difficult.

A last avenue may be found in the SCM Agreement and items (j) and (k) in the Illustrative List of Export Subsidies, which govern the use of export credits (see the technical annex). There is no public information available on the long-run operating costs and losses of the CWB's export credit program to evaluate the program under item (j). It is also not clear how the ability to generate revenue from rescheduled debt under export credit guarantees, or the GOC payments of interest and principal to the CWB on behalf of debtors, would be treated under items (j) and (k). A formal challenge would likely be necessary to bring forth the needed data.[7]

WTO Proposals on STEs and Export Credit Guarantees

In light of the uncertainty of existing WTO provisions, export STEs and export credit guarantees have been an important part of the Doha Development Round negotiations on export competition. In 2002 the United States put forth a proposal to discipline export STEs as part of its comprehensive proposal for the Doha Round. Not surprisingly, given the long-standing and contentious bilateral dispute between certain U.S. wheat interests and the CWB, the proposal aimed mainly at the CWB. The three main elements were:

- to end exclusive export rights in order to ensure private sector competition in markets controlled by single desk exporters;
- to establish WTO requirements for single desk exporters to provide notification of acquisition costs, export pricing and other sales information; and
- to eliminate the use of government funds or guarantees to support or ensure the financial viability of single desk exporters[8]

The United States also proposed disciplines on export credits and credit guarantees. The proposal reflects the contentious negotiations on export credit disciplines, begun after the Uruguay Round under the auspices of the OECD. In November 2000, all OECD participants signaled their acceptance of a compromise agreement except Canada, which made clear it would not accept the proposal, which required the disciplines be applied to an export STE.[9] Like the OECD proposal, the U.S. proposal clearly applies to export STEs, not just to governments, and targets CWB practices under its credit guarantee programs, including rescheduled debt and net interest earnings.

The European Union also called for additional WTO disciplines on STEs. The EU noted that the exclusive and special rights granted STEs can result in market power and unfair competition in world markets. Through cross-subsidization, price discrimination, and price pooling, STEs can circumvent export subsidy commitments. The EU proposal called for increased transparency and stricter notification requirements with respect to indirect export subsidies.[10]

Canada did not put forward a specific proposal on STEs, but an earlier Canadian government study provided a classification scheme for STEs to aid in trade negotiations (19). The authors state "the most effective way of ensuring that STEs do not subsidize exports is to ensure that these are self-financing institutions that are insulated from government" (p. 32). As the authors note, "the major concern about these bodies [export STEs], heightened by alleged lack of transparency, is the possibility that they may be used as a means of covert export subsidization" (p. 88). The authors claimed any subsidies associated with the CWB, such as from pool deficits or export credit guarantees, were in conformity with WTO commitments. Based on this analysis of the ability of agricultural STEs to distort world markets, the GOC did not see a need for further disciplines on STEs.

Doha Framework Agreement

On July 31, 2004, WTO members agreed on a framework that set the general guidelines and parameters for reaching a final agreement on agriculture under the Doha Development Round. The framework agreement included specific provisions on export STEs and export credits, generally reflecting the U.S. and EU proposals. The Doha Ministerial Declaration calls for "reduction of, with a view to phasing out, all forms of export subsidies." The specific language for STEs and export credit guarantees states:

> The following will be eliminated by the end date to be agreed:
>
> - Terms and conditions relating to export credits, export credit guarantees, or insurance programmes with repayment periods of 180 days and below which are not in accordance with disciplines to be agreed. These disciplines will cover, *inter alia*, payment of interest, minimum interest rates, minimum premium requirements, and other elements which can constitute subsidies or otherwise distort trade.

- Trade distorting practices with respect to exporting STEs, including eliminating export subsidies provided to or by them, government financing, and the underwriting of losses. The issue of the future use of monopoly powers will be subject to further negotiation.[11]

By identifying subsidies and other government actions specific to STEs as export subsidies, the framework language has implications for CWB government guarantees and credit sales. The government guarantees that reduce borrowing costs, direct cash infusions for debt reduction agreements, and net interest earnings that accrue as a result of debt forgiveness from credit sales could all come under scrutiny. The GOC has never notified subsidies associated with the CWB government guarantees, such as identified in the U.S. CVD investigation. If the government guarantees on borrowing and lending were eliminated (along with GOC underwriting of pool deficits), the CWB financial structure would presumably look significantly different. Borrowing costs would be higher, net interest earnings would mostly disappear, and the government payments for debt reduction would not be available. If net interest earnings were no longer available to the pools, the CWB pricing structure for individual sales might have to be adjusted. Just how these changes would affect the CWB's export and pricing of wheat and barley exports is unclear.

Conclusions

The government guarantees of all CWB borrowing and export credit sales allow the CWB to generate a financial cushion – non–market based revenue – which can be used to pay operating expenses, enhance returns to producers, or discount export prices. The role of the government in generating the financial cushion is paramount. The lack of transparency and reporting makes it difficult to ascertain the size and use of the financial cushion. In the highly competitive world grain market, a margin of even a few dollars per ton can be crucial in making a sale over a competitor. Current WTO disciplines cannot capture the complex and non-transparent activities of the CWB. The recently concluded WTO framework agreement for the Doha negotiations calls for eliminating STE export subsidies and for new rules on export credit guarantees, which could bring some transparency and discipline to these CWB privileges and practices.

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Endnotes

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1. The CWB is a well-known institution in western Canada, and the author assumes readers are generally familiar with the CWB structure and function. See (10) for a complete description of the CWB. The other privileges have been extensively examined in the literature and are not discussed here. A longer paper that discusses all three elements is available from the author.
2. In response to questions posed by the U.S. government during consultations held on January 31, 2003, the GOC stated in a written reply on March 10, 2003 that the CWB had informed them that the figure of C$185 billon was incorrect and should be C$47 billion. See *Canada – Measures Relating to Exports of Wheat and Treatment of Imported Grain,* (WT/DS276), First Written Submission of the United States of America, August 1, 2003. http://www.ustr.gov/enforcement/briefs.shtml
3. The Paris Club is an informal international forum through which governments of debtor and creditor countries establish mutually agreed terms for the rescheduling and/or reduction of debts owed to the creditor governments and their public agencies. It first met in 1956.
4. *Public Accounts of Canada,* Summary Reports and Financial Statements, Section 10, Contingent Liabilities, Table 10.8, 1995-96. http://collection.nlc-bnc.ca/100/201/301/public_accounts_can/index.html.
5. The Department of Commerce noted, "the facts and circumstances surrounding the subsidy program at issue here [the comprehensive financial guarantees] are exceptional, particularly to the degree to which its various elements are interrelated" (17, p. 23). In its preliminary ruling on March 10, 2003, Commerce also found that the payments the Canadian government made to the CWB as part of the debt forgiveness were export subsidies because the payments were contingent on export. But exports to the U.S. did not benefit from the payments, so Commerce did not find them countervailable (18).
6. At the request of the United States, a WTO panel, Canada – Measures Relating to Exports of Wheat and Treatment of Imported Grain*,* was formed on March 31, 2003, and a second panel was formed on July 11, 2003, following a procedural dispute. The panel issued its final report on April 6, 2004. The United States and Canada both appealed, and the appellate body

issued its report on August 30, 2004. The WTO reports can be found at http://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm#2003.

7. On September 8, 2004, a WTO panel ruled that U.S. export credit guarantees were export subsidies under Item (j). To reach such a conclusion, the panel examined U.S. data on long-run costs of the programs. See http://www.wto.org/english/news_e/news_e.htm.
8. See http://www.fas.usda.gov/itp/wto/disciplines.htm.
9. The document, *The Chairman's Revised Proposal for a Sector Understanding on Export Credits for Agricultural Products*, is dated July 9, 2002, revised from the first November 2000 draft. It can be found at http://oecd.org/dataoecd/31/12/1939746.pdf. The document notes that a full consensus was not achieved. On May 17, 2001, Reuters reported that "Canada's refusal to join an OECD agreement that would scale back government export credit guarantees for agricultural products means the effort will have to be negotiated by the World Trade Organization... . Canada was the lone holdout on the issue among the 30 industrialized nations that make up the OECD, a group that requires consensus for reforms to be put in place."
10. See G/AG/NG/W/34, European Communities Proposal: Export Competition, at http://docsonline.wto.org/gen_search.asp?searchmode =simple
11. WT/L/579 2 August 2004. Decision adopted by the General Council on 1 August 2004. See http://www.wto.org/english/tratop_e/dda_e/draft_text_ gc_dg_31july04_e.htm.

The technical annex to this paper, pages 120-122 is available as a separate document