

# Saskatchewan flax Grower



**Allen Kuhlmann**  
Chair,  
Saskatchewan  
Flax Development  
Commission

#### **Our Mission**

"To lead, promote,  
and enhance the  
production,  
value-added  
processing and  
utilization of  
Saskatchewan flax."

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**SaskFlax**

## **Chair's Report**

I hope by the time this letter is out you have finished seeding and conditions are set for excellent crop development. Wouldn't it be nice to have a "trouble free" year? It's okay to dream, right?

It's very fashionable these days to talk about value chains, biotech and how science or R & D can be the salvation of agriculture. Flax Canada 2015 is moving ahead to Phase II and planning R & D efforts in human health, animal health, fiber and industrial uses for flax. Several organizations propose genetic modification to create various exciting new things.

Sometimes we are accused of being small minded or not able to see the big picture when we counsel caution. In our zeal to do new things with flax, producers need two important things to be very clear. First, somehow we need to be absolutely sure our export markets based in Europe are not endangered by a small acreage niche product and secondly, how can these changes help create more wealth for producers? The greater good for the value chain must be shared by producers! Currently most segments of the agricultural industry are healthy, but producers are not. If producers are not able to survive there will be no value chain.

Government and industry plans seem to involve everyone but producers. Plant breeding and

agronomic research are all but forgotten. Creating a flax industry based not only on linseed oil, but also on food, human health products, fiber, shives and other things demands money for both breeding and agronomic changes. In order to create new and better feedstocks and processes we need this basic research. We can't fund this on our own.

Efforts in fiber are moving ahead. A mini workshop is being planned for July. The purpose is to work with interested producers to share management practices that will enhance fiber quality.

We continue to work together with the Flax Council of Canada and AmeriFlax to promote flax. Promoting products like eggs, milk etc. return \$3 - \$6 revenue to producers. We hope this is true for the Omega-3 enhanced eggs, milk and other flax products. Recent history seems positive in this regard.

When we look at spending your check-off dollars we use our best judgment to be sure producers benefit. The commission attempts to see your money create value for you.

**Allen Kuhlmann**  
Chair

## **Coming Events**

### **July 7th Field Demonstration Day**

Seager Wheeler National Historic Farm  
Rosthern, Sk.  
Richard Szwydkdy  
306.229.0230

### **July 8th Field Day**

Organic Crop Improvement Association (OCIA)  
Saskatchewan #2  
Barb Willick  
Email: box269bl@sasktel.net

### **July 12th Scott Field Day**

Western Applied Research Corporation (AAFC)  
Scott, Sk.  
Shannon Chant  
306.291.7024 cell

### **July 18th Indian Head Crop Management Day**

Indian Head Agricultural Research Foundation  
Indian Head, Sk.  
Judy McKell  
306.695.4200

### **July 20th Field Day**

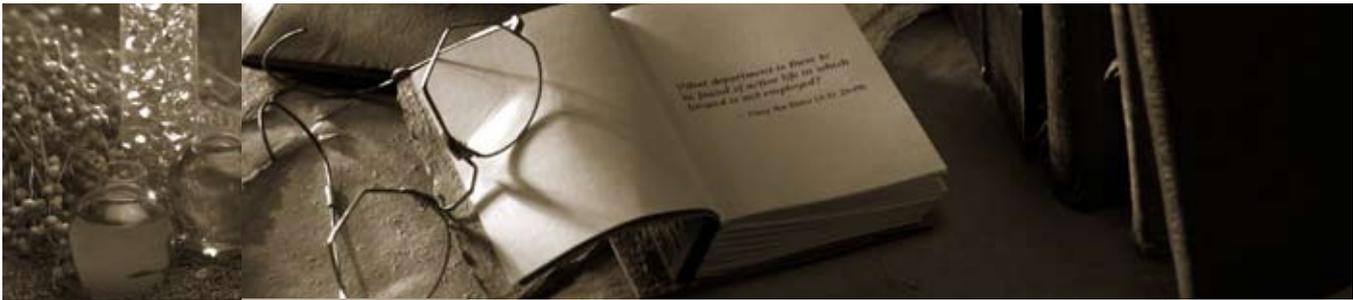
South East Research Farm  
Redvers, Sk.  
Scott Chalmers  
306.452.3161

### **July 21st Annual Tour**

East Central Research Foundation  
Canora, Sk.  
Kim Shonehouse  
306.563.5551

### **July 22nd Field Day**

Organic Crop Improvement Association (OCIA) #8  
Deb Miller  
Email: sunriseorganics@sasktel.net



N. Lee Pengilly  
Researcher and Author

## The Language and Lore of Flax

While many people recognize the Summer Solstice as the longest day of the year, in the olden times of Medieval Europe it was the time of midsummer festivals. Although the origin of these celebrations is not precisely documented, it is thought that they came about as recognition of mankind's powerlessness against the changing seasons. Whatever the origin, these festivals prevailed in Europe from Ireland in the west to Russia in the east and from Norway and Sweden in the north to Spain and Greece in the south. Of all of the rituals associated with the midsummer celebration, of particular interest is the bonfire.

Each community had their own particular customs, but in general, every family was expected to contribute fuel for the fire. Young boys might go about the village with carts collecting the donations with "evil consequences in store for the curmudgeons unwilling to participate." A hill was the chosen location and at the appropriate time on Midsummer Eve, the fire was lit with great ceremony. Young and old alike gathered round and it was said "all the heights were ablaze as far as the eye could see." Earlier that day, many homes had extinguished the fire in their domestic hearth with the intent of rekindling it with a brand taken from the midsummer fire.

## The Buzz on Biodiesel

You can't be involved in agricultural production in Saskatchewan without being caught up in the unfolding opportunities for grain and oilseed use in the renewable fuel market.

Biodiesel is recognized for its potential as a clean burning fuel designed for use as a heavy vehicle fuel (diesel engines). It can be made from used-recovered vegetable oil, any seed oil including "low grade" seed oil, yellow grease and tallow. With a Lifecycle Energy Balance for biodiesel at approximately 3.2:1 — meaning biodiesel yields three units of fuel energy for every one unit of fossil energy consumed in its lifecycle - it reduces greenhouse gas emissions and may lower hydrocarbon and particulate emissions. It's biodegradable with spills degrading four times faster than petroleum diesel fuel. Safety-Health Effects tests indicate it is ten times less toxic than table salt and biodegrades as fast as sugar.

Biodiesel Basic is an informative pamphlet put out by the Saskatchewan Canola Development Commission and Saskatchewan Canola Growers Association. It explains that biodiesel can be blended with petroleum diesel to create a biodiesel blend. (BXX where the XX represents the percentage of biodiesel.) For example B5 would mean 5%

The people judged as to how tall the flax would grow by the height to which the flames of the fire rose, and whoever could leap over the fire was assured to be free from backache during the harvest season. In some areas, it was believed the flax would grow as high as the young people could leap over the flames. In other areas, folk would plant three charred sticks from the bonfire in their flax fields, and leave them there until harvest was complete thinking this would make the flax grow tall. Another regional custom was to have women throw birch boughs into the fire saying, "May the flax be as tall as this bough." Attendance at the fire-festival was of utmost importance and it was understood those who did not attend would have "their barley full of thistles and their oats full of weeds." Wood was tossed into the fire with the proclamation, "Weeds to the fire! Flax to the field. Flax grow long!"

Other reported benefits of participation in the fire-festival included protection from witchcraft, thunder, hail and both human and livestock disease. Of particular interest to some producers might be the note that it was essential in certain areas to light fires at midsummer if the June had been especially rainy. The people believed the lighting of bonfires would cause the rain to cease and growing conditions to improve. In many areas of Saskatchewan a midsummer celebration may be well worth considering!

biodiesel and 95% petroleum diesel. In outlining the economic potential for biodiesel use in Canada, the pamphlet goes on to say that Canada uses about 25 billion litres of diesel per year. A 1% biodiesel blend (B1) in Canada (for all on-road diesel) translates into a market for 250 million litres of biodiesel per year.

Currently in Canada (as of early 2005) over 20 fleets have implemented biodiesel programs. Users and potential markets include on road transportation, off road transportation (mining, marine, rail, construction, agriculture, recreation), home and commercial heating, and feedstocks for other chemical processes and products (fuel additives, paints, inks, plastics, fabrics).

In our own province, the Saskatchewan Transportation Company (STC) will be using a 2% biodiesel fuel mixture in a portion of its fleet in the upcoming year to test the product viability. At this time, STC will be sourcing their fuel from Milligan Bio-tech established in Foam Lake.

So how does flax fit into the emerging biodiesel economy? SaskFlax Executive Director, Linda Braun, represents Saskatchewan flax producers on the Saskatchewan Biodiesel Task Force. She says there is definitely some potential for flax, but more research needs to be done. One bushel of flaxseed produces 9.5 litres of linseed oil which in conversion would be the amount available for biodiesel use.

Judie Dyck is the Executive Director of the Saskatchewan Canola Growers Association and Co-Chair of Saskatchewan's Biodiesel Task Force – a group that consists of five provincial and one federal government representative, five members representing primary producers, four industry representatives and two researchers. She looked forward to the release of the Task Force Report to the Minister on June 21 in conjunction with the Farm Progress Show and is enthused about the work the group is doing. As an emerging issue, the subject of bioenergy use keeps task force members busy on many fronts. With the rapid development of biodiesel

production facilities in the northern United States, Canadian agriculture – from producers to policy makers to industry – has to move quickly in order to be positioned to take advantage of this new and potentially lucrative market. With the current demand in North Dakota alone for one million acres of canola, Judie echoes the growing concern of many producers, “We can export raw commodity again or we can take advantage of some genuine opportunities for value adding right here at home. This is a real opportunity for western Canada, particularly Saskatchewan.” Although not releasing any specific details of Task Force recommendations, Judie

does emphasize the critical need for the Federal Government to develop a national strategy for biofuel/renewable energy. “We need standards. We need to know the rules. Once we know the rules, then we can play.”

For more information, look for updates from the June 21st release of the Biodiesel Task Force Report. To obtain copies of Biodiesel Basics contact the Saskatchewan Canola Growers Association (scga@innovationplace.com) or the Saskatchewan Canola Development Commission (info@saskcanola.com).

## Flax Grower Survey – Harvest Details

In the last issue of the Saskatchewan Flax Grower we provided some general information gathered from a flax grower survey commissioned by the Plant Breeding and Production Working Group (BPWG) of Flax Canada 2015 and carried out by Inshtrix Research Services®. We thought readers would be interested in what data the survey revealed in terms of harvest and straw management.

**Harvest** – In all, 27.8% of respondents used a desiccant. 32.6% of top growers used a desiccant, compared to 21.1% of those in the bottom group. The large majority (82.4%) of those who applied a desiccant did so in September with most of those doing so in the first or second week. Most (68%) of those who applied desiccants said they did so at a maturity stage of 8 or higher out of 10. The average is 7.9 which is similar for top, middle and bottom growers.

Just over half (52.3%) of respondents swathed, while 47.7% straight combined. While we cannot conclude that the difference is statistically significant, it appears that top growers were more likely than others to straight combine, at 53.3%

Half of the respondents who straight combined did so in the month of October. Another 39.9% combined in September. Three respondents (1.4%) combined in April or May and 7.3% combined in November or December. Growers in the

bottom group were less likely than top growers to combine at the end of December or beginning of October.

About one in four respondents who swathed did so in the third week of September. A total of 64.2% swathed in the month of September, while 8.7% swathed in August and 27.1% in December. 31.1% of growers in the bottom group swathed in August or the first week of September, compared to only 5.1% of top growers.

Of those who swathed, 52.9% harvested in the month of October. Another 40.8% harvested in September, with most of those at the end of the month. Comparing groups, 53.3% of top growers harvested in the first or second week of October, compared to only 29.2% of those in the bottom group.

To capture the combined effect of straight combining/swathing and their dates, a cluster analysis was used to allocate respondents into groups with similar harvesting practices. It was found that those who straight combine in the first or second week of October and those who swath in the first week of October and also harvest in October tend to have the highest yields, while those who swath in August and harvest as the end of September tend to have lower yields.

Nearly one quarter of all respondents experienced weathering or frost damage problems. 35.8% of those in the bottom growers group indicated they experienced weathering or frost damage, compared to 17.8% of top growers.

Overall, 22.8% of those who experienced weathering problems lost a grade because of it. This equates to 5.5% of all respondents. Of those in the bottom group who experienced weathering problems, 29.5% lost a grade because of it. This equates to 10.6% of all growers in the bottom group.

**Straw Management** – Nearly half (47.2%) of all respondents burn their straw for management. One third remove their straw for sale, 23.9% use chopping and 10.6% use spreading. 4.2% do not use any straw management practices. Top growers are slightly more likely to use burning or removal for sale, while bottom growers are slightly more likely to use chopping.

With an average rating of 9 out of 10, the large majority (88.4%) of respondents rated the standability of their crop pre-harvest as 8 or better out of 10. Standability was rated very high for top, middle and bottom growers.

When asked if they would be willing to change their agronomic practices to increase the value of their straw, 78.2% of all respondents said that they would. When asked to specify what they would be willing to do, 26.8% of respondents mentioned baling/selling the straw. Another 25.1% said they would do anything that would increase the value. When asked what agronomic practices seem to make their flax straw easier to manage, 17.1% of respondents mentioned baling. Another 15.8% think burning makes it more manageable, 12.8% said chopping and 11.5% said using a desiccant works.

The following companies are registered to collect the Flax Checkoff and have agreed to have their company names listed in the newsletter.

**Bioriginal Food & Science Corp.**  
102 Melville Street  
Saskatoon, Saskatchewan  
S7J 0R1  
306.975.1166/306.242.3829 F

**Bunge Canada**  
Box 750  
Altona, Manitoba R0G 0B0  
204.324.2209/204.324.5995 F

**Bunge Canada**  
Box 2230  
Humboldt, Saskatchewan  
S0K 2A0  
306.682.5060/306.682.5789 F

**Bunge Canada**  
Box 546  
Russell, Manitoba R0J 1W0  
204.773.3422/204.773.3077 F

**C.B. Constantini Ltd.**  
730 – 1508 W. Broadway  
Vancouver, B.C. V3C 4L7  
604.669.1212/604.689.4145 F

**CanMar Grain Products Ltd.**  
2480 Sandra Schmirler Way  
Regina, Saskatchewan S4W 1B7  
306.721.1375/306.721.1378 F

**Cargill Limited**  
P.O. Box 5900  
300 – 240 Graham Avenue  
Winnipeg, Manitoba R3C 4C5  
204.947.6369/204.947.6495

**Delmar Commodities Ltd.**  
Box 1055  
Winkler, Manitoba R6W 4B1  
204.331.3696/204.331.3704 F

**Diefenbaker Seed Processors Ltd.**  
Box 69  
Elbow, Saskatchewan S0H 1J0  
306.644.4704/306.644.4706 F

**Farmer Direct Co-operative Ltd.**  
1450 Park Street  
Regina, Saskatchewan S4N 2G2  
306.352.2444/306.352.2443 F

**Fill-More Seeds Inc.**  
P.O. Box 70  
Fillmore, Saskatchewan S0G 1N0  
306.722.3353/306.722.3328 F

**G.H. Schweitzer Enterprises Ltd.**  
Box 222  
Eston, Saskatchewan S0L 1A0  
306.962.4751/306.962.3251 F

**Horizon Agro Inc.**  
Box 59 R.R. #1  
Morris, Manitoba R0G 1K0  
204.746.2026/204.746.2343 F

**Keystone Grain Ltd.**  
P.O. Box 1236  
Winkler, Manitoba R6W 4B3  
204.325.9555/204.325.2240 F  
204.255.5550/204.255.5054 F

**Lakeside Pulse & Special Crops Ltd.**  
665 – 167 Lombard Avenue  
Winnipeg, Manitoba R3B 0V3  
204.255.5550/204.255.5054 F

**Larsen Seeds**  
Box 39  
Aylsham, Saskatchewan S0E 0C0  
306.862.7333/306.862.9552 F

**Linear Grain Inc.**  
P.O. Box 219  
Carman, Manitoba R0G 0J0  
204.745.6747/204.745.6573 F

**Mavigo N.A. Inc.**  
209 – 845 Broad Street  
Regina, Saskatchewan S4R 8G9  
306.721.8900/306.721.8988 F

**Mid.Sask Terminal Ltd.**  
Box 1208  
Watrous, Saskatchewan S0K 4T0  
306.946.2225/306.946.3954 F

**North East Terminal**  
Box 177  
Wadena, Saskatchewan S0A 4J0  
Telephone: (306) 338-2999  
Fax: (306) 338-2484

**North West Terminal Ltd.**  
Box 1090  
Unity, Saskatchewan S0K 4L0  
306.228.3735/306.228.3877 F

**Parent Seed Farms Ltd.**  
Box 36  
St. Joseph, Manitoba R0G 2C0  
204.737.2625/204.737.2248 F

**Parkland Pulses Grain Co. Ltd.**  
Box 848  
North Battleford, Saskatchewan  
S9A 2Z3  
306.445.4199/306.445.1650 F

**Parrish & Heimbecker Ltd.**  
1400 – 201 Portage Avenue  
Winnipeg, Manitoba R3B 3K6  
204.956.2030/204.943.8233 F

**Paterson Grain**  
22nd Floor  
333 Main Street  
Winnipeg, Manitoba R3C 4E2  
204.956.2090/204.926.9586 F

**Pioneer Grain Company Ltd.**  
2800 One Lombard Place  
Winnipeg, Manitoba R3B 0X8  
204.934.5961/204.957.5614 F

**Pizzey's Milling & Baking Co.**  
Box 132  
Angusville, Manitoba R0J 0A0  
204.773.2575/204.773.2720 F

**Saskatchewan Wheat Pool**  
2625 Victoria Avenue  
Regina, Saskatchewan S4T 7T9  
306.569.4200/306.569.5133 F

**Sedley Seeds Ltd.**  
Box 70  
Sedley, Saskatchewan S0G 4K0  
306.885.4444/306.885.2035 F

**Terminal 22 (1998) Inc.**  
Box 430  
Balcarres, Saskatchewan  
S0G 0C0  
306.334.2222/306.334.2262 F

**Van Burck Seeds Ltd.**  
Box 7  
Star City, Saskatchewan S0E 1P0  
306.863.4377/306.863.2252 F

**Western Commodities Trading**  
Box 69  
Spalding, Saskatchewan S0K 4C0  
306.872.2280/306.872.2283 F

**Western Grain Trade Ltd.**  
#9 – 2155 Airport Drive  
Saskatoon, Saskatchewan  
S7L 6M5  
306.657.3455/306.652.3450 F

**Weyburn Inland Terminal**  
Box 698  
Weyburn, Saskatchewan S4H 2K8  
306.842.7436/306.842.5307 F

## Flaxseed Market in Tough for a While Yet

– Mike Jubinville, ProFarmer Canada

From hero to chump is how one might characterize the progression of flaxseed prices over the past 12-18 months. Prices have held relatively unchanged for months now since declining from the all-time record high price environment of just over a year ago on extremely tight supplies.

But with spot market bids way back then soaring to \$12, then \$14...even as high as \$16-18/bu for those fortunate few with supply available to sell...as is the characteristic of the flaxseed market following years of high prices... the market subsequently becomes barraged with supplies and in turn sharply lower prices for 2 years to follow.

If farmers actually planted the 2.2 million acres reported by Statistics Canada, and crop conditions remain generally favorable, prices in the year ahead will be hard-pressed to see significant improvement from current levels.

And I'll have to state upfront the marketing message I have regularly delivered to my own farm clients of Pro Farmer Canada since the summer/fall of 2005...

- 1) market all old crop sooner than later, and
- 2) avoid planting in 06/07.

The big picture continues to suggest that the flax market needs at least another year to chew

through surplus supplies under a sloppy price environment in order to recharge demand (notably to Europe) and to trim seeded acreage here in Canada. Unfortunately, neither development has yet to occur.

There is some demand for old crop from buyers for July-August positions. In fact at the time writing (June 13), there are finally decent (relatively speaking) pricing opportunities on flax for Saskatchewan growers that live in beyond the very southeast corner. Loaded rail car producers have been able to attain \$6.25/bu, which is definitely a sell if available.

But fresh export business remains slow to materialize and ending stock projections look large for the current marketing year and are expected to grow further for 2006/07.

Flax supplies in farm storage remain large and those producers still holding onto old crop flax will likely start looking to make some sales and clean out their bin space in the immediate weeks ahead.

With no threat to the immediate supply outlook, it appears there are few attractive fall delivered pricing opportunities at this time. Expectations for large ending stocks, together with large new crop acres, leave buyers feeling that new crop should not be at a premium to old crop, so they are more than willing to hold off.

With 2006 Canadian flaxseed acres holding up similar to last year, I suspect another year of depressed prices are in store for this market,

### Canadian Flaxseed Supply and Demand

| 000 tonnes      | 03/04 | 04/05 | 05/06 | 06/07 |
|-----------------|-------|-------|-------|-------|
| <b>Supply</b>   |       |       |       |       |
| Acres, 000's    | 1,800 | 1,305 | 1,985 | 2,148 |
| Yield (bu/acre) | 16    | 16    | 21    | 20    |
| Carry in        | 128   | 93    | 30    | 382   |
| Production      | 754   | 517   | 1,082 | 1,090 |
| Imports         | 20    | 39    | 35    | 35    |
| Total Supply    | 903   | 648   | 1,147 | 1,507 |
| <b>Demand</b>   |       |       |       |       |
| Crush           | 34    | 20    | 25    | 25    |
| FSW             | 168   | 131   | 250   | 275   |
| Exports         | 609   | 468   | 490   | 620   |
| Total Demand    | 810   | 618   | 765   | 920   |
| Ending Stocks   | 93    | 30    | 382   | 587   |

| Flax Pricing                  |                         |     |
|-------------------------------|-------------------------|-----|
|                               | Units                   |     |
| <b>Landed EU Flax</b>         | US \$/t                 | 295 |
| less ocean freight            |                         | 38  |
| less misc costs               |                         | 6   |
| Currency 0.90                 | US to Cdn \$ conversion |     |
| <b>FOB Thunder Bay</b>        | C \$/t                  | 279 |
| less misc costs               |                         | 12  |
| <b>Track Thunder Bay</b>      |                         | 267 |
| less rail                     |                         | 30  |
| <b>FOB Elevator</b>           |                         | 237 |
| less margin                   |                         | 10  |
| <b>Farmer Delivered Price</b> |                         | 227 |

unless yield potential is throttled back dramatically.

European flax prices at the present time are roughly US \$295/t landed...which translates back to a rough competitive value generic Saskatchewan of about \$5.75/bu. This can vary by 25 cents/bu depending on grain buyer specifics. Here's how the rough-math works back to the Prairie region.

Prairie farmers of course will look at a \$5.75/bu farmgate price and say the price is too low and insufficient to pencil profit. That may be true, but it's important to remember that a high or low price is a relative term. Through the eyes of European importers (our largest market), prices are still not cheap.

Note above we use the current landed price of about US \$295/t. Know that in the past 20 years, they have been below US \$275/t a whopping 60% of the time. Current prices are still US \$20/t higher than this inflexion point.

Western Canada's flax market remains fairly quiet, as buyers are reasonably well covered for the time being, while farmers are still managing the tail end of the seeding/spraying season.

I have seen some spot opportunities still available above \$6.00/bu in few select areas of Western Canada (biased to Manitoba), but prices below that level are definitely more the norm for both old and new crop. Going forward, \$6.00/bu could be seen as "a fence position" for producers. If the lowest you sold was at six dollars, you're not going to hurt yourself, but that's probably the high end of the range for the foreseeable future.

### Out of the Box Marketing

The best pricing prospects in the flaxseed market for the year ahead will likely be reserved for those creative farm marketers who right now start actively exploring and advancing niche marketing opportunities. One such example, the trend towards increasing human consumption usage for premium priced flax for the health food market. The trend towards processing flax into a higher valued product, marketable directly to food consumers, is a prime example of the crossover between selling commodity-type crops and the 'value added' dream that eludes so many farms.

Market premiums in the year ahead will be difficult to find in the traditional demand sectors for flaxseed...such as linseed oil used in paint and other industrial products like linoleum, concrete and wood preservers. Such end uses, while accounting for the bulk of today's overall demand base, does not drive the same intense willingness-to-pay as for high omega-3 fatty acid content flax oil on health food grocery store shelves. For this reason, flax growers who can direct their crops into food-use channels are likely to end up with a better return over the long run than those whose flax ends up as a paint additive.

And while I too admit being discouraged for the general price outlook for the flaxseed market for the year ahead...just as canola is cultivating a new demand base in the bio-fuel market, flaxseed needs to further its market development as best it can away from industrial uses and more towards niche food market opportunities. That is, unless one is to be satisfied with a traditional market which likely languishes for another year down in this

\$6/bu territory before perhaps a cyclical turn higher emerges sometime in the 2007/08 marketing year.

In the meantime, seek out any and all new opportunities to market it outside the traditional bulk handling channels that almost exclusively market flax for industrial end uses. Start the work by contacting health food stores. Then source out the small processors which generate the flax-based products for this market.

Undoubtedly, it will present a greater marketing challenge than simply hauling to the local grain elevator. But with contacts established and end-user requirements met, it may present a more profitable longer term market that the flax grower can service in the years to come.

### Wrap Up

History appears poised to repeat again where it takes at least two years for industrial flaxseed price trends to stabilize. It often takes two years to make all flax growers believe that this new and lower price threshold is for real and forget that the previously bullish circumstances have changed. It also takes two years to rebuild demand from Europe, which has certainly softened since the flaxseed market peaked a year ago.

Canada has a large flaxseed supply cushion... and even with reduced acreage in 2007...and even without yield adversity in a subsequent growing cycle...it may very well take into 2008 before a new and sustained price uptrend becomes established.



## A Cash Commodity Clearinghouse

— Carman Read, Project Manager Ag Clearing

The Western Barley Growers are working with the federal government's Agricultural Policy Framework program to develop an exciting new risk management tool for Canadian farmers. The instrument is called a Cash Commodity Clearinghouse and its major function is to introduce standards and processes to reduce risk and assure performance and payment on contractual obligations.

Most financial transactions in the world today are settled through a clearinghouse. When you use a credit card or write a cheque, those settlements are cleared through a bank's clearinghouse. Commodity futures markets use clearinghouses to manage back office procedures. A clearinghouse acts as an unbiased risk management mechanism designed to monitor contract performance. It assures delivery and payment through a set of Standardized Contracts and Customer Agreements and by enforcing an agreed upon set of Rules and Procedures.

### What is it?

A clearinghouse is not an exchange or trading system, it is a performance insurance agent and risk management tool that becomes part of the process after a deal is made. In its simplest form, a buyer and seller register their trades with the clearinghouse. Then the clearinghouse registers, reports and monitors the open trades until execution while constantly ensuring the parties have the financial ability to execute in the event of any market condition or price fluctuation.

### The notable benefits of a clearinghouse include:

- Financial Security
- Reduced Inventory Financing
- Contract Performance
- Contract Standardization
- Price Transparency

By using a clearinghouse to register transactions you can take comfort in knowing that a deal will be completed regardless of when the delivery is scheduled to take place or who is the counterparty to the trade.

You will have assurance that the terms of the agreement will be honoured because the clearinghouse stands by the transaction and enforces performance. Maintaining a clear set of dispute mechanisms and arbitration rules is also part of the clearinghouse's role and purpose.

You can also be assured that you will be paid 100% whether or not the counterparty is fraudulent. (This is better assurance than the current CGC bonding mechanism).

Improved price visibility on registered trades and valuation procedures means better price discovery and more competitive bids and offers. For flax growers this feature is of particular interest since the flax futures contract has failed and the marketplace is void of good market price discovery. The clearinghouse must

monitor cash values for all open positions registered with them. As a result an improved market intelligence and reporting system is available to anyone who uses the clearinghouse. This is true for both nearby and deferred positions.

### How does it work?

Clearinghouse members pay a small fee to register transactions with the clearinghouse and margin their accounts on a daily basis relative to the current market value of their open positions. The clearinghouse maintains a large financial pool to protect against participant default and collects margin money to maintain financial balance.

The clearinghouse brings all open positions to market value each day and collects margin money from the counterparty who has incurred a loss in value relative to their contract value. This margin is a preventative measure to remove any incentive not to perform. (These margins are all returned upon successful completion of the physical delivery).

If either party to the transaction fails to honour their commitment then the clearinghouse intercedes on behalf of the injured party. This offers both buyer and seller equal strength in the transaction and removes imbalance in contracting due to unfair terms or a stronger position in the marketplace.

### What is the benefit to me?

From a producer's perspective the introduction of a clearinghouse offers farmers a stronger voice in contract terminology and performance guarantees. It also means better price information in both nearby and deferred markets as well as expanded marketing opportunities offering easier contracting and enhanced competition. It means lower lending rates from financial institutions due to the securitized nature of these transactions compared to traditional contracts. Less risk means lower rates. Lenders gain by being in position to lend larger sums of money, albeit at lower rates, but with a much higher degree of security.

The net benefit of these features could well translate into improved earnings ranging from \$2 to \$4 per tonne or higher on all grain marketings, while the initial cost estimates of registering trades are in the \$.50 to \$1.00/tonne range. These fees would be greatly reduced if larger volumes were cleared through the clearinghouse.

### A Simple Example - Current Situation

John is a flax grower in Craik, Saskatchewan. He normally hauls his flax to the elevator in town or to Davidson depending on competitive bids. He is totally dependent on the elevator companies for competitive prices and has no vision of the price of flax when he plants it or when he delivers it except for the price signals he receives from his local elevator. He can read stories about flax prices in Rotterdam but they mean little to him in central Sask. other than the trends up or down. He could call a processor in Fargo, North Dakota but has no relationship with the buyer and has a poor

understanding of the costs to get product to that destination. He has heard stories that other people have had to wait a long time before getting paid and there have been quality disputes at unload.

### With a Clearinghouse

John accesses the clearinghouse price reports showing the value of spot and deferred flax prices in March to decide if flax is a better crop to plant this year than durum or spring wheat. This information is useful as both a price discovery mechanism and a guideline for him to negotiate price with his local elevator. The prices reflect real trades or independent valuation and show a much narrower spread between bids and offers than he has seen in the past since the Winnipeg Commodity Exchange's flax futures contract disappeared. He now has the option to sell his flax on a deferred delivery contract to the local elevator or enter into a fall delivery contract with a distant buyer he has never dealt with before because the trade will go through the clearinghouse assuring him that the flax will move when they agreed and he will be paid in a timely fashion.

As an added benefit he can now go to his lending institution and show the banker the deferred delivery contract and the price he has secured. The banker will lend him operating capital at an advantageous rate for this year's crop input costs based on the secured trade registered in the clearinghouse.

### Flax – Whole Grain Status?

May of 2005 saw the United States Department of Agriculture release the Dietary Guidelines for Americans 2005. The document includes a recommendation that people "consume 3 or more ounce equivalents of whole grain products a day." With that recommendation, manufacturers can make factual statements about the whole grains content of their products. Flax, along with other seed oils such as sunflower and canola, as well as legumes such as soy were omitted from the whole grain category lists as it was felt they did not meet the Food and Drug Administration (FDA) criterion. In the published definition whole grains are those that "include cereal grains that consist of the intact, ground, cracked or flaked fruit of the grains whose principal components – the starchy endosperm, germ and bran – are present in the same relative proportions as they exist in the intact grain." Now, flax producers in both the US and Canada are planning to petition the FDA in an attempt to have flax included in the whole grains list. Because flax is unique in that unlike most other oilseeds and legumes, it is commonly used with its component parts intact when sold as a commodity such as flour. Because of this, producers and manufacturers of flax and flaxseed products feel that it meets the FDA whole-grains definition. It is thought the chances of flax receiving "whole-grain" status are improved given that the FDA has indicated strong support for omega-3's and ALA. If the petition is accepted it would allow use of the Whole Grain Stamp on flax or flax products that meet the content requirements. In Canada, Manitoba's Pizzey's Milling is one company that is actively petitioning for the inclusion.

### Annual General Meeting: Flax Day 2007 "Growing for the Market"

Monday, January 8, 2007  
Canadian Room, Saskatoon Inn  
Saskatoon, Saskatchewan  
Registration: \$20.00 on site

#### Featuring:

- Annual updates from the Flax Council of Canada, AmeriFlax and Flax Canada 2015, SaskFlax business meeting

- Breeding Program/Genomics
- Quality Feedstock for Fiber
- Organics
- Biofuels
- Comfort Paks
- Market/Commodity Clearing Concept

### Join the Flax Team!

For more information, contact Directors Dave Sefton or Gordon Cresswell (Nomination Committee).

## NOMINATION FORM FOR DIRECTOR

### SASKATCHEWAN FLAX DEVELOPMENT COMMISSION

In accordance with the Saskatchewan Flax Development Plan Regulations, I, the undersigned, hereby submit my name as a candidate for election to a seat on the Board of Directors of the Saskatchewan Flax Development Commission. I have sold flax within the past two years and have paid the check-off required pursuant to Sub Sections 15 (1) and (2) of the Saskatchewan Flax Development Commission Regulations.

\_\_\_\_\_  
*First Name*

\_\_\_\_\_  
*Last Name*

\_\_\_\_\_  
*Address*

\_\_\_\_\_  
*Town*

\_\_\_\_\_  
*Postal Code*

\_\_\_\_\_  
*Telephone*

\_\_\_\_\_  
*Facsimile*

\_\_\_\_\_  
*Signature*

I nominate the above flax producer as a candidate for election as a Director of the Saskatchewan Flax Development Commission.

\_\_\_\_\_  
*Registered Producer (signature)*

\_\_\_\_\_  
*Please Print Name*

\_\_\_\_\_  
*Telephone/Fax*

\_\_\_\_\_  
*Registered Producer (signature)*

\_\_\_\_\_  
*Please Print Name*

\_\_\_\_\_  
*Telephone/Fax*

\_\_\_\_\_  
*Registered Producer (signature)*

\_\_\_\_\_  
*Please Print Name*

\_\_\_\_\_  
*Telephone/Fax*

*Please return this form along with you biography on or before Noon October 27, 2006 to:*

Saskatchewan Flax Development Commission  
ASA – 116 – 103rd Street East  
Saskatoon, Saskatchewan  
S7N 1Y7  
Fax: (306) 664-4404

In your biography please describe briefly what you would like to accomplish during your term as a director on the Flax Commission, and on what activities you would like to see the Commission concentrate its energies. Please also outline your reasons for wanting to be a Director. Optional information about yourself might include your education, sports/hobbies, spouse's name and number of children and ages, what your farming operations include (crops grown, livestock) and other organizations you belong to.

*Note: Only registered producers may vote, nominate or hold office. If your levy is collected under a company name contact us to designate your company representative.*

## Flax Checkoff Deadlines

Period 2 August 31, 2006

Period 1 February 28, 2007

Application forms are available by contacting SaskFlax at:

306.664.1901

306.664.4404 Fax

saskflax@saskflax.com

Saskatchewan Flax Development Commission

ASA - 116 - 103rd Street East

Saskatoon, Saskatchewan

S7N 1Y7

## Our Logo Tells A Story

The bright and lively crown of the sheaf of flax represents the coming together of many members into a solid organization.



# SaskFlax

The stalks of the flax plant positioned in a woven manner represent fiber-based products as well as the close interaction between

members of the organization.

The boll of the plant, made up of three oil droplet shapes, represents oil-based products as well as the overlapping areas of production, research and marketing.

*Saskatchewan Flax Grower is published bi-annually by the Saskatchewan Flax Development Commission, for registered flax producers, registered buyers and allied organizations.*

*Subscription rate for other individuals/organizations is \$50.00 per year. Contact office for more details 306.664.1901.*

### Help Us Be Accurate

Are you getting more than one copy? Address incomplete or name misspelled? Let us know. Call 306.664.1901, 306.664.4404 fax, or mail in the label for correction. Thank you.

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