

Introduction to Canola Contracting

Canola can be sold under a variety of different contracting mechanisms. Each one has advantages and disadvantages, depending on market conditions and the situation of the individual farm. Understanding how to use a variety of tools, and when each one works best, can greatly improve a growers' overall canola marketing performance.

Signing a canola sales contract, no matter what the terms, commits the farm to deliver an agreed-upon tonnage to a particular company. A delivery date or window is usually specified as well. 'Spot' contracts are for immediate delivery. A 'Deferred Delivery Contract' (also known as a Forward Contract), sets a price now for delivery of canola in the future.

The simplest canola selling mechanism is the cash contract for spot delivery. This involves selling and delivering canola to a particular company at the price they are posting on the day. It's the equivalent of dumping it in the pit, having made no prior pricing arrangements with the purchaser.

Example: Suppose your local elevator is bidding \$8/bu for canola, or \$353 per tonne. This is your target price, so you haul in 50 tonnes that day and the grain company pays you \$17,650.

There are more complex pricing tools available too, for example that allow for the futures or the basis portion of the price, or both, to be fixed at a later date. It's possible to fix a minimum price for canola, or set a target price above the market where a specified tonnage of your grain will be sold if and when a company's bids reach that level.

There are many different ways to sell canola, but one needn't use them all, all the time. At the point in time a particular farmer is selling, one contracting mechanism is likely to work better than the others for maximizing canola market returns.

The most important thing to remember in marketing canola is that there is no magic bullet: the farms that do the best job put together well-thought-out plans ahead of time that meet their individual needs and goals, and stick to them.

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