Delivery Options

Elevator and Crushing Companies

A variety of contracts are available to canola growers through either grain handling companies or canola crushers. Before entering into a contract, read the contract, so that you understand its terms and what your obligations are. The terms of the contract will vary by type of contract and company offering the contract.

Production Contract

A production contract is an agreement that you will deliver canola produced on a specific number of acres to the contracting company. Production contracts are most often offered by crushing companies. Some elevator companies may offer production contracts, particularly for High Erucic Acid Rapeseed.

When you sign the contract, it commits you to deliver the production from a given acreage, and the company to accept it. No agreement is made to the total volume to be delivered or the price. The volume is committed after the crop has been harvested. Prices can be established at any time using one of the following options:

- At time of delivery
- Deferred delivery contract
- Deferred pricing contract

It is important that you read over your production contract. Some companies specify grades to be delivered with other grades being accepted only at the company's option. The contracts may also specify quantities. Understand what you are signing. Some companies have a charge for releasing a grower from a signed production contract. Check the costs and conditions associated with obtaining a release from a contract.

Deferred Delivery Contract

This type of contract is in effect a hedge, a perfect one at that, because it allows you to lock in both a price and the basis. It is a contract where price is agreed to now for a specific delivery period at some time in the future. The advantage to this type of a hedge is that it does not require margin to be put up, and it does not require that you maintain your maintenance margin when the market goes against you. On the other hand, it limits the choice of company to which you can haul your cash grain. The quality of canola which can be delivered under the contract is specified in the contract.

Basis Contract

This contract is much less common than the deferred delivery contract, and may not be offered at all times. The contract is mutually negotiated between you, the grower, and the company. An agreed upon basis level is established at the time the contract is signed. You are able to price your canola anytime within a specified period. The delivery price is then calculated using the nearby futures price minus the agreed basis.

Using this procedure, though, you are still a speculator because prices may rise or fall during the period between the signing of the contract and actual delivery. However, your basis risk has been eliminated in the interim.

Deferred Pricing Contract

You can deliver your canola to either a crusher or elevator, or put the canola into storage and price it at a later date. Canola crushers use grain receipts, while elevator companies use storage tickets, as the contractual arrangement indicating you have a quantity of unpriced canola in store. You have 90 days from the time of delivery to price your canola. You can benefit from any price increase, or basis narrowing, but you also can lose from a price decline or basis widening. If you do not price your canola within 90 days the company automatically does it for you, and you must accept the market price on the 91st day.

The advantage to deferred pricing is that it lets you deliver your canola when it is convenient to you, or when quotas are available, without requiring that you accept the current market price. The grade, weight, dockage and moisture content of your canola is settled at time of delivery.

Be aware the farmers tend to leave pricing their canola until near the end of the 90 day period. If many farmers price in the same time frame, it can cause a temporary price decline, such as is traditionally the case around harvest. It has been observed that prices tend to trend downwards about 90 days after a quota opens.

Grain Pricing Order or Target Price Contract

Some companies allow you to place an order with an agent for a specified price. If the market reaches that price, the quantity of canola which you have committed, is priced. This option is available for either canola in store in the elevator or canola still on your farm. In the case of in-store canola, if your target price is not reached within 90 days the canola is automatically priced on the 91st day. For canola held on your farm you can have an open pricing order. This means there is no time limit on the contract. When your target price is reached, you deliver your canola.

The disadvantage of this type of contract is that it can isolate you from the marketing decision. If you decide, once a target price is set, to no longer follow the market and the moves in it, you may miss a peak in the market where the price nears your target but then falls; or your canola might be priced early in an uptrending market; or your canola might not be priced because of a down-trending market.

The advantage, of course, is that you can put the pricing order into effect at busy times of the year when it is difficult to follow price moves.

Summary

The elevator system

Grain handling companies and crushing companies offer similar services to canola growers. The major difference is in the delivery of those services. Grain handling companies have an established network, through their elevators, and consequently are in close proximity to growers. When marketing to your local elevator you are dealing with a familiar person who, together with his company, will look after all the details associated with the handling, shipping and sale of your canola. Generally grain handling companies offer:

- Deferred delivery contracts
- Basis contracts
- Deferred pricing contracts
- Pricing at time of delivery
- Target price contracts/grain pricing orders

Crushing companies

Crushing plants, in most cases, do not have as extensive a network in the country as do grain companies. However, that need not make marketing to a crusher any more difficult than to an elevator company. All crushers have a telephone system whereby prepricing can be done over the phone. Telephone calls between the grower and company representative are recorded, and serve as binding agreements between the two parties. All crushers offer a trucking allowance towards trucking costs, and in most cases will arrange transportation from the farm gate to the plant. Generally, crushing companies offer:

- Production contracts
- Deferred delivery contracts
- Deferred pricing contracts
- Pricing at time of delivery
- Basis contracts

Canola crushing plants require a constant supply of canola in order to keep their manufacturing process running efficiently. If sufficient canola cannot be sourced directly from growers, crushing companies will purchase the required quantities from elevator companies.

Since every company is different, be sure to check out the various contracts available and their terms.