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# CANADIAN GRAIN

## farm exports are key to economy.

by J.W. MADILL/General Manager  
Alberta Wheat Pool

**A**s Canada's grain industry enters its fourth quarter century of operation, it has three primary objectives:

- To increase its total grain exports to 30 million metric tons annually by 1985.
- To ensure its position in the world grain marketplace by selling only a quality product.
- To balance the use of grain so that its domestic users flourish at the same time as its all-essential export market is being supplied.

Such objectives probably would be viewed as being impossibly ambi-

tious by any of the other major grain producing nations, which include the U.S.S.R., China, and India, as well as the U.S. But for Canada, grain is basic; Canada is more dependent on the export of grain than is any other nation—it's the fifth largest grain producer, but the second largest exporter. Gaining a firmer hold on its export position, behind that of the U.S., is seen by Canada not only as possible but also essential to its economic well being—especially in the west and in Ontario, where the nation's grain production is centered.

The economic activity generated

by the Canadian grain industry has been calculated at roughly two-and-a-half times the value of actual grain sales, which are estimated to be between \$3 billion and \$4 billion for Canadian Wheat Board sales alone, and probably double that if all grain sales are included. Thus, these three objectives are endorsed by the 150,000 grain producers in Western Canada, the Canadian government, grain handlers, transporters, processors, and others, despite some friction and much disagreement about the procedures for their implementation.

If Canada can meet its first objective of increasing its grain production, and thus its exports, can it be assured that the worldwide demand for such production will continue? Past statistics and future projections suggest that it can.

During the seven years ending in 1980, the worldwide production of grain (which includes wheat, rice, corn, barley, rye, oats, sorghum, and millet) increased at an average annual rate of 1.73 percent, while the worldwide consumption increased by 2.25 percent. This difference was due, in part, to a world population increase of 1.95 percent; and the demand was satisfied by carryover stocks from crop years in which the production of grain outweighed the demand.

An even greater difference is evident between the rate of increase in grain production and that of world trade, the latter of which has grown at an average annual rate of 5.6 percent since the 1973-1974 crop year. The primary reason for this disparity is that three of the five major grain producing nations—the U.S.S.R., China, and India—consume more grain than they produce. They, together with Europe, import approximately 60 percent of all the

grain that is traded in the world.

Based on the pattern of worldwide grain consumption during the past decade, projections for 1985—the target date set by Canada for fulfilling its number one objective—suggest that the world demand for wheat and coarse grain will be about 219 million metric tons. If Canada maintains its current market share of 10.5 percent, however, its level of grain exports at that time would be only about 23 million metric tons. In order to reach its target of 30 million metric tons by 1985, therefore, Canada will have to increase its market share by increasing grain exports 38 percent.

#### **Has Canada the Potential?**

Canada has attained the position of being a major world grain producer and exporter because of its geography, the unique structure of its grain industry, and the skill and perseverance of its farmers.

Most of Canada's grain is produced in a fairly narrow belt of land stretching along the southern border of its western provinces. Covering 197,000 square miles, it is an area blessed with rich soil and with a climate that produces a high quality grain. Canada's hard red spring wheat, for example, has long been the standard for bread wheats, and, recently, new wheat grades with greater protein content have been introduced.

Though Canada produces 40 million metric tons of grain annually—or about 12 percent of U.S. production—it has been able to compete with the U.S. in world markets. In 1979-1980, for example, it exported a record 21.7 million metric tons. (Such exports account for 70 to 80 percent of its wheat production, as compared to 50 percent for the U.S.) Total exports have been increasing at an average annual rate of 7.2 percent per year since the 1973-1974 crop year; and,

except for 1978-1979, Canada has been maintaining 10 to 11 percent of the world trade in wheat and other coarse grains. The U.S., which is the major grain exporting nation, accounts for approximately 50 to 60 percent of the world's total.

Though past statistics would suggest that Canada will continue to increase the production and exportation of grain, does it have the potential to increase such exports by as much as 30 million metric tons? Several studies have been completed which take into account the increased acreage, increased yields, new varieties, summerfallow land, and alternate crops that would be required in order to achieve that level. If one uses historical data to project the 1985 production, estimates come up short of an exportable surplus of 30 million metric tons. Thus, to meet 1985 objectives, adequate incentives must be offered.

Incentives that would stimulate grain production would appear to be in the areas of price, marketing, and transportation. If incentives were present in those areas, extra production would come from: new land and summerfallow land being put into production; land being turned from the production of alternate crops to the production of grain; new varieties of grain; and further use of fertilizers, chemicals, and irrigation.

#### **The Industry's Structure**

Also a factor in Canada's achieving its objectives is the structure of its grain industry, which combines features of both a central agency system and commercial enterprise. The structure is that of a complex mixture of players, each of whom is involved in the movement of products from a widely scattered geographic area, through a complex rail network, to a limited number of outlets. That

aspect alone demands a high level of cooperation and coordination. But when the customer, weather, and government regulatory bodies are added, cooperation and coordination become critical.

By far, the greatest impetus for the development of a grain industry in Canada has come from the federal government, and it continues to play a vital role. At the turn of the century, the government provided the funds for rail construction, built terminal elevators, and eventually became involved in regulating the industry. In the fall of 1979, it appointed a grain transport coordinator, who was given the authority to make whatever adjustments that might be necessary in Canada's grain system to accomplish the goal of a 50 percent increase in exports by 1985.

The federal agency created to regulate the Canadian grain industry is the Canadian Grain Commission, a branch of the Department of Agriculture. It is the commission's responsibility to establish grain grades and standards, license elevators and oversee their operation, ensure accurate weights of grain shipments, evaluate the quality of crops and new grain varieties, and set the maximum tariffs that are chargeable for services rendered within the industry.

Another federal agency that has control over grain is the Canadian Wheat Board, which the government established in the mid 1930's to sell wheat, oats, and barley on the export market, and also domestically if it is used for human consumption. The wheat board also offers farmers an alternate market for the sale of their domestic feed grains.

Answerable to parliament through its minister, the Canadian Wheat Board sells grain for farmers at cost, paying them an initial price through its elevator operators. The price paid

is a guaranteed floor price established by the government. However, if funds remain at the end of the crop year after the grain is sold, and after the board pays its expenses, the farmer will receive a final payment.

Other governmental departments also are involved in grain marketing. The Department of Industry, Trade, and Commerce works primarily on export development through trade offices located around the world. The Grain Marketing Office administers a fund to assist private firms with market development for grains and oilseeds. And the Canadian International Grains Institute, funded by the Department of Trade, Industry, and Commerce, tries to develop and maintain new markets.

Most of the Canadian grain that is not traded in the export market by the Canadian Wheat Board is sold on the domestic market through the Winnipeg Commodity Exchange, a nonprofit organization which operates Canada's cash and futures grain markets. The exchange plays a central role in facilitating open-market grain transactions.

Also on the nongovernment side of grain marketing are the grain companies, which are owned either privately or by farmer-owned cooperatives. Their role in the grain industry is to collect the grain in the country and to ship it to port terminals or to domestic users.

Of the eight major grain elevator companies in Canada, four are owned by grain companies which are farmer cooperatives, and the remainder by grain companies which are owned privately. There are approximately 3,500 primary elevators in western Canada, and they have a total storage capacity of over nine million metric tons.

Grain terminals, of which there are 24, are owned by farmer coopera-

tives, private companies, or the federal government. These terminals are responsible for receiving, cleaning, storing, and weighing grain, and then loading it aboard vessels.

Farmer-owned cooperatives have played a major role in the Canadian grain industry ever since the railways first crossed the western prairies. The four major farmer-owned cooperatives—the Alberta Wheat Pool, the Saskatchewan Wheat Pool, Manitoba Pool Elevators, and United Grain Growers—own about 77 percent of the primary elevators and handle about 75 percent of the total grain entering the elevator system. The unique role of cooperatives is to provide service to the farmers who are the owners of the organizations. Any earnings by the organizations are returned in the form of patronage cash dividends or increased reserves to the farmers who delivered grain.

Responsible for the movement of grain to a port terminal or to a domestic user are several railway companies. Canadian Pacific Rail, a shareholder-owned company, has traditionally moved just over 50 percent of the grain that the nation produces. Canadian National Railways, which is government owned, hauls slightly less, with the slack being picked up by a few small regional railroads.

### **Problems to Overcome**

Production potential, a well-structured system, and incentives to the industry will not be enough, however, if Canada is to meet its 1985 production and export goal. Canada also will have to struggle to overcome five major and persistent problems, the dominance of which has varied with the times:

- Transportation.
- Farm economics.
- Labour interruptions.
- Uncertain petroleum supplies.

## GRAIN CRISIS

*Transportation.* At present, it appears that problems in the transportation system may be one of the factors that will prevent Canada from meeting its export objectives. Such problems are endemic in a northern country which must move its goods vast distances across mountain ranges, lakes, and rugged terrain. In an effort to solve its grain-related transportation problems, Canada has initiated a number of improvements to increase the carrying capacity and efficiency of its railroads.

The sight of hopper-bottomed grain cars is very common across Canada's prairies today because of the 14,400 such cars that have been put into the railway system since 1972, at a cost of approximately \$55,000 per car. The funds for these cars have been provided by the federal and provincial governments, and by the Canadian Wheat Board. In addition, over 8,400 older cars will be rehabilitated for \$355 million.

Other efforts have been or will be made to speed up the gathering and distribution of grain. Old and inefficient branch lines have been closed, and a program for rehabilitating rail lines has been started by the government that will cost over \$700 million. One project, for example, the building of a tunnel near Roger Pass, B.C., will help increase by 45 percent the shipping capacity of the Canadian Pacific through the mountains. As a result, the time required for a car to deliver grain to port and then return for another load has been decreasing.

Who pays the freight for transporting grain? A commission appointed by the government reported in 1974 that of the \$234 million it cost to move grain that year, the producers were paying \$89.7 million, the government \$55.4 million, and the railroads were absorbing the balance of \$89.4 million. Since that time, infla-

tion has increased these costs considerably.

Improvements to the grain marketing system have concerned not only railroads. In 1978, both the Alberta and Saskatchewan wheat pools added 78,000 and 84,000 metric tons of storage capacity, respectively, to

made to upgrade the country's elevator system. Approximately \$250 million has been spent by the industry during the past five years, and it is expected that this amount will double over the next five to 10 years. All of the recent and anticipated expenditures within the grain industry total

"With stocks generally depleted, the danger looms that disappointing harvests worldwide again next year would lead to widely fluctuating prices and perhaps serious food shortages in some areas of the world. The fact that we face such a prospect just two years after accumulating our largest global stocks of grains in over a decade underscores the continued fragility of the world food situation—that the balance between too much and too little food can tilt easily, and rapidly, from one direction to the other."

J. DAWSON AHAL / chairman

USDA World Food and Agricultural Outlook and Situation Board

their terminal facilities on the west coast. The purpose of this was to add surge capacity to the system and to increase the system's total throughput capacity. Also adding to the system's west coast grain storage capacity is Pioneer Grain, which opened a new terminal in Vancouver in 1979, bringing the grain storage capability on the west coast to close to one million metric tons. In addition, six of Canada's grain handling companies have joined together to build a 220,000-metric-ton terminal elevator at Prince Rupert, B.C. Other additions and improvements to terminals have been made in Thunder Bay, Ont. and through the St. Lawrence Seaway. The total cost thus far of improvements to terminals is estimated at \$400 million.

Large investments also are being

some \$2.5 billion. Farmers themselves, through investments in land, machinery, and other equipment, probably have invested an equal amount.

*Farm economics.* The most important element of the grain trade will always be the farmers who produce the grain. It is they around which the whole system revolves. Farmers, however, always have been faced with an uncertain future caused by fluctuating grain prices, unpredictable weather, uncertain markets, and, scariest of all, inflation, which has pushed up the cost of doing business on the farm. Only some of these factors can be ameliorated by government stabilization programs and crop insurance.

Ten years of inflation has increased the pressure on the economics of a farm operation. The cost of land, equipment, and other farm inputs has increased dramatically. New farmers with adequate capital can arrange financing, but they face heavy interest payments.

The risk for farmers is even greater when one considers that grain prices are more often a function of world markets than they are of production costs at home. Price decisions quite often seem to be made in Washington and in Brussels. Canadian grain people learned long ago that it does no good to cry foul when the individual Canadian farmer seems to be competing on the world market against the U.S. Treasury, or with the multifaceted power of the European Economic Community. Canadian grain must go to export for the most part. Yet, bargaining for price is not possible for the Canadian farmer, or for his organization, usually. The successful farmer has been one who has adapted to changing circumstances, most often by changing his production patterns.

A few examples of how the costs to the Canadian farmer have risen over the years can be illustrated if we use 1971 as a base year for our index. The following items reflect price levels as of the first quarter of 1980:

	Percent increase 1971-1980
Total farm inputs .....	157.6
Buildings .....	137.5
Equipment .....	111.0
Fertilizers .....	200.4
Labour .....	166.4
Petroleum products .....	113.6

The investment required for a farm today is considerable. One impact of this is shown in the growth of corporate farms, which increased by 65 percent between 1971 and 1976. Dur-

ing the same period, the number of family farms in Canada decreased by 18 percent, or 61,685 farms.

It should be noted that most grain companies and cooperatives were organized for grain handling only. Over the years, however, they have shifted dramatically into complementary activities, thus expanding their revenue producing base and increasing their stability. Diversification also has been a means of assuring the supply of essential products.

The first and most logical area of expansion was agroproducts, including such items as fertilizers, chemicals, seed, livestock supplies, grain bins, and farm equipment. In 1978-1979, for example, the three prairie pools had combined agro sales of over \$200 million, and this is expected to be even higher in 1979-1980.

In addition to selling fertilizer in the country, the three prairie pools, together with Federated Cooperatives Limited, own Western Cooperative Fertilizers Limited. Western, in turn, owns and operates two fertilizer manufacturing plants—one in Alberta produces more than 300,000 metric tons annually—a phosphate mining operation in Idaho, and two ammonia plants.

*Unassured petroleum supplies.* Like inflation, the supply and cost of petroleum offer persistent problems over which Canada has little control at present. Such uncertainties are a problem not only on the farm, but also between the farm and seaport. Though Canada is capable of energy self-sufficiency, given wise management, agriculture has not been given a priority. The promise that farming will be allocated the portable petroleum fuel that it must have would make investments in the grain industry more certain and planning more constructive.

*Labour interruptions.* Equally important to the Canadian grain industry is the effect of labour interruptions during the shipment of grain to market. Strikes at elevators, on railways, and at port terminals can cripple the system. The grain industry realizes that it can never be the master of its own house where labour is concerned. Many integral labour groups have only marginal relations with grain, and their union contracts have no grain signatories, yet a strike by such groups can stop grain exports overnight.

### Summary

There is a vital role for grain in the development of man's destiny. Even with phenomenal technological advances and significant growth in other industries, agricultural production will continue to be a determining factor in the economic well-being of Canada and other Western nations. Grain has been traded around the world for centuries and has reached a volume of over 180 million metric tons each year.

The Canadian grain system itself has been evolving for all of its 75 years, and in 1980 it faces some of the most challenging adjustments in its history. For despite its proven capability to fulfill its objectives, it is subject to serious dislocation and crippling ineffectiveness.

It is to meet these challenges that the Canadian grain industry has made a heavy capital investment in recent years. The ultimate objective is to take advantage of the opportunity for Canadian grain to serve world needs. To achieve this, the industry has set new goals and found better cohesiveness than in the past. The system is very Canadian; it is copied from no one. In many ways, it reflects the country in which it operates. ▲