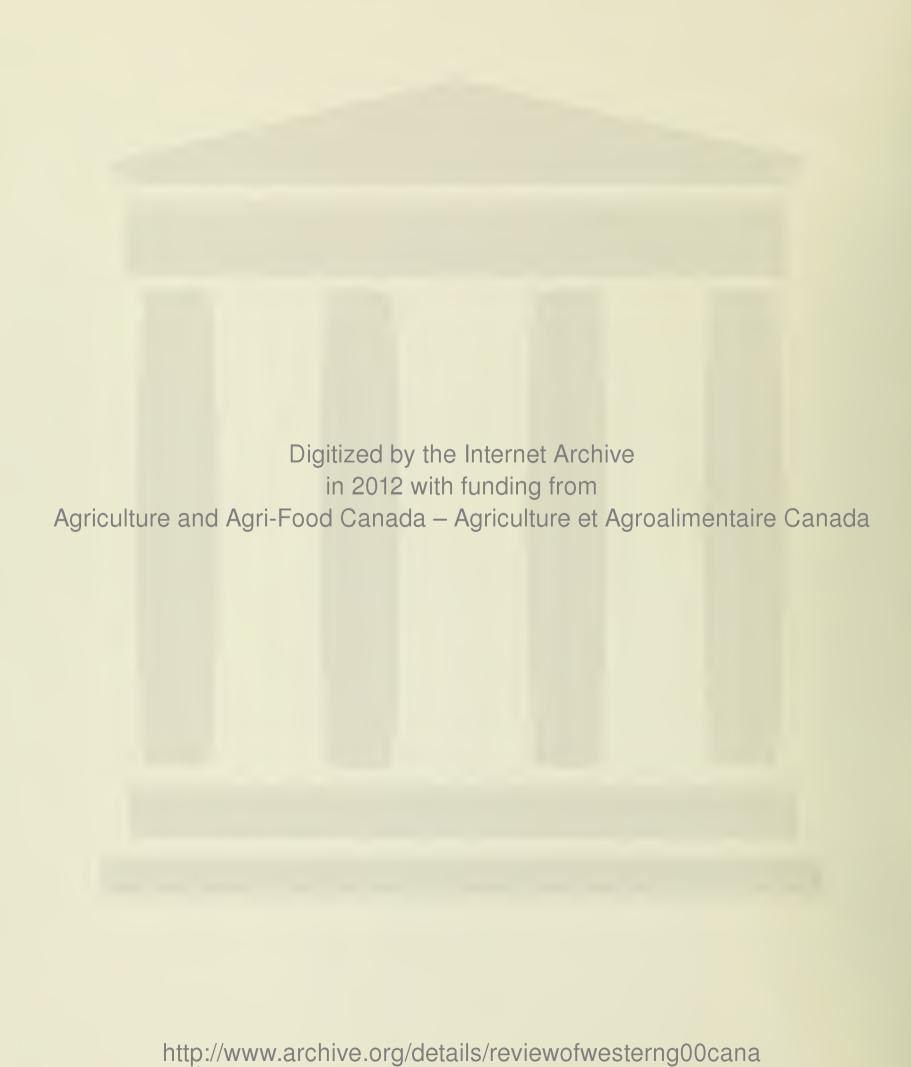


# REVIEW OF WESTERN GRAIN STABILIZATION PROGRAM 1976 = 1978

630.4 CQ12 P-5125 1980



### **PREFACE**

The Review Committee has attempted to provide a descriptive review of the operation of the Western Grain Stabilization Act, concentrating on the administrative aspects and possibilities for change to better satisfy the original objectives of the Act.

The assistance provided by several producer organizations; numerous firms in the grains industry; and other governmental departments and agencies, both federal and provincial, contributed substantially to the successful implementation of the program and is acknowledged with appreciation.

### REVIEW OF WESTERN GRAIN STABILIZATION PROGRAM

1976 - 1978

### 1. Introduction

Section 45.1 of the Western Grain Stabilization Act provides that "The Minister shall, within three years after coming into force of this Act, undertake a comprehensive review of the operation of the Act and its effects on western grain producers, and shall forthwith submit a report to Parliament thereon". A review was undertaken accordingly, early in 1979, the Act having been proclaimed on April 1, 1976. The following is to report the outcome of the review to the Parliament of Canada. The review was conducted by the Administration in consultation with the Advisory Committee of Producers and interested producer organizations as listed in Exhibit J.

### 2. Background

The objectives of the Western Grain Stabilization Program are to:

- a) Protect grain producers in the C.W.B. designated area from uncertainty and variation in returns due to unforeseen short-term market fluctuations and changes in production costs.
- b) Ensure that growth and development of the grain sector is consistent with basic market forces and that the grain sector develops in a manner consistent with competitive advantage in world grain markets.
- c) Be complementary to the development of the livestock industry.
- d) Be based on a set of principles consistent with general objectives for agriculture and which could be applied to other commodity groups.

The program was designed to include the six major grains in the C.W.B. region, namely, wheat, oats, barley, rye, flax and rapeseed. Provision was included to add other grains by specific prescription.

All actual producers who were holders of Canadian Wheat Board delivery permits in the 1975-76 crop year were enrolled in the program when it was introduced in April

1976 with retroactive effect to January 1, 1976. Those not wishing to participate were given a three-year period to voluntarily withdraw from the program.

Stabilization payments are required to be made to participants whenever net cash flow in any calendar year for the whole designated area falls below the average net cash flow for the previous five years. Net cash flow is determined by calculating the difference between overall cash receipts for the grain sold in a given year and the related cash costs of production.

The stabilization payments are issued from a fund maintained by the Federal Government made up of contributions by participating producers and the Government. The stabilization payment is equal to the difference between the net cash flow for the year in question and the previous five-year average net cash flow. The share of a payment issued to an individual participant is directly proportional to his/her contributions to the fund in the last three years.

The stabilization fund was designated so that a six percent base (two percent of participating gross receipts from producers and four percent from the Federal Government) will be self-sustaining over a period of 20 years. If payments are required to be made in years when the fund is in deficit, the government must loan funds to cover the payment. Such loans must be repaid from the fund, with interest, during subsequent years when the fund returns to a surplus position.

### 3. Implementation of Program

### a) Administration Features

The Canadian Wheat Board (C.W.B.) permit book system provides the basis for the identification and record keeping systems used for the program. Permit book numbers are used to identify individual accounts. All actual producers to whom a Suffix "A" permit book is issued are deemed to be participants under the W.G.S. Act unless they opt out of the

program. The permit book numbering system is designed for electronic data processing (EDP) which is provided through the central facilities the Department of Agriculture in Ottawa and the Canadian Grain Commission in Winnipeg. All data required in connection with levy contributions, grain receipts and sales volumes are maintained by the EDP system.

Operational management of the program is the responsibility of the Western Grain Stabilization Administration located in the Canadian Grain Commission Building in Winnipeg. The staff complement required for the administration totalled 17 positions at the end of the third year.

Economic and policy analysis is provided by the Food Production and Inspection and the Policy, Planning and Economics Branches of the Department of Agriculture. Statistics Canada conducts the Farm Expenditures Survey which provides the necessary cash cost data. Statistics Canada also provides the acreage, yield, production and farm inventory data for each grain. The total cost for administration up to March 31, 1979, was \$4.6 million. The total cost per year for operating the program and the average cost for each producer account are shown in Exhibit I. The administration costs are borne independent of the W.G.S. Account by the Federal Government.

### b) 1976 Introductory Arrangements

During the start-up phase of the program a number of special arrangements were made to develop a clear understanding of the program among producers within a limited introductory period.

Producers who opted out of the program during the first part of 1976 were allowed to remit levies voluntarily from the proceeds of grain delivered between January 1 and April 1, 1976, from C.W.B. final payments made in January 1976, and from crop insurance payments. The deadline for accepting voluntary levies for 1976 was extended into May 1977. About \$24 million in levy was contributed by participants for the 1976 calendar year.

All actual producers with C.W.B. permit books when the program came into effect

on April 1, 1976, were automatically enrolled in the program. Those wishing to opt out of the plan were able to do so by forwarding a signed request to the Administration. As of December 31, 1976, 77 percent of those eligible to participate were recorded as full participants.

Calculations of the net cash flow for the 1976 calendar year were completed during 1977 after the data for estimates of farm expenses and production/marketing adjustments were obtained. These calculations established that the net cash flow for 1976 exceeded the previous five-year average with the result that no stabilization payment was required for 1976.

### c) 1977 and 1978

Detailed participation data are available in Exhibit A. There were 124,105 participants recorded in the program by the opt-out deadline of December 31, 1978. The distribution of participants by provinces was Manitoba 19%, Saskatchewan 50%, Alberta 30% and British Columbia 1%.

The net cash flow for 1977 fell below the five-year average and a partial stabilization payment of \$60 million was issued to participants in early May 1978. The final portion (\$55 million) was paid in October of 1978, for a total payment of \$115 million for the 1977 calendar year.

The final data for calculating the 1977 payment was not available until the fall of 1978 and this necessitated a twoinstallment system. Although the intent of the W.G.S. program was to make payments as early in the spring as possible to offset some of the cash costs at seeding time, it was necessary to use the twopayment system to avoid an undue delay in releasing individual payments until the fall when the calculations could be confirmed. The partial payment in the spring was based on the best estimate of what the total payout might be at that time. A similar procedure was followed for 1978, and a partial final payment of \$153 million in October 1979 for a total payment of \$253 million for the 1978 calendar year.

### d) Levy Collection System

Licensed elevators as well as Designated Purchasers registered with the Administration deduct the levy directly from grain sales at time of delivery. In addition, levies are deducted by the C.W.B. from their final interim and adjustment payments. Voluntary levies are accepted by the Administration for grain sales to feed mills, seed plants and feedlots which are registered as Designated Purchasers but which do not automatically deduct the levy. Producers may send in a voluntary levy on crop insurance or hail insurance settlements. Copies of approved receipts or settlement statements must be sent will all voluntary levy payments. The program does not include farm-tofarm transactions, grain fed to a producer's own livestock and poultry, or non-pedigreed seed grain sold to other producers. All producer levies are held in the W.G.S. Account established in the Consolidated Revenue Fund of the Federal Government. The Federal Government's contribution and the accrued interest on all contributions are also credited to this account.

As of December 31, 1978, the producers had contributed \$80 million, the Federal Government had contributed \$160 million and the Fund had earned \$20 million interest.

### e) Advisory Committee

A producer advisory committee was established as provided under section 37 of the Act. The members of this committee are: Donn Mitchell, Douglas, Manitoba (chairman); Avery Sahl, Mossbank, Saskatchewan; Douglas Nieman, Lake Lenore, Saskatchewan; Samuel Sych, Brownvale, Alberta; and Alberta Wagner, Lacombe, Alberta.

The committee met twice in 1976, three times in 1977, and twice in 1978. The committee discussed the overall administration of the program and issues such as inclusion of other crops, changing the eligibility limits, and reviewing cash flow calculations, payouts and administrative deadlines. Some of the items on which the Advisory Committee made recommendations were mustard and farm-to-farm

pedigreed seed sales under the program and increasing the eligibility limit for grain sale proceeds from \$25,000 to \$45,000. These recommendations have been implemented as changes in the program.

### 4. Current Status of Program

The W.G.S. program has gained a wide base of acceptance amongst western grain producers. The program has appealed to all classes of farm operations whether it be a small single family farm unit or a large incorporated farm operation. Farm size has not been a significant determinant to date of whether or not the producer is a participant. Similarly, geographic location has not had a material bearing on participation.

An important factor contributing to the producers' acceptance is that the benefits materialized soon after the program was introduced. The first payment was issued in the second year of operation and was followed immediately by a second payment the next year. At this date the program has issued payments totalling \$368 million. With total producer contributions of \$80.7 million for the three-year period from 1976 to 1978, the net return to participating producers in Western Canada is in excess of \$288 million.

A more detailed discussion of the foregoing overview follows. Specific inferences relevant to British Columbia are excluded in some instances because of the small absolute number of producers.

### a) Participation

The general conclusions from three years' operations are that (i) there is no significant difference in the rate of participation on a geographical basis, i.e. by provinces, and (ii) the program has a broad basis of appeal to all classes of grain producers. The overall rate of participation at the end of the third year, 1978, was 74.1% (See Exhibit A).

The program has generally received the same degree of acceptance in each province. Alberta had the lowest rate of participation (72%) at the close of 1978. The highest rate (79%) was in B.C. and

may be attributable to the small number of permit holders who are concentrated in a comparatively small region.

Using grain except levels as the basis of measuring size of farm operation (See Exhibit B), there is no significant difference in the percentage of participants versus non-participants at each of the receipt levels analyzed for the region as a whole. Some interprovincial variation does occur among participants, based on farm size (See Exhibit C).

### b) Grain Receipts

An analysis of the quantities and receipts reported for 1978 marketings reveals that individual grains vary provincially in their degree of importance and influence (See Exhibits D and E). Sixty-eight percent of the wheat, including durum, was marketed in Saskatchewan and it accounted for 77 percent of the volume of grains marketed in that province. Saskatchewan also marketed the largest share of rye, rapeseed and mustard seed. Alberta's marketings reflected the comparatively dominant influence of oats and barley, while 55% of the flaxseed crop is in Manitoba.

A comparison of Exhibits D and E illustrates the relative importance of individual grains. For example, in Manitoba wheat accounts for 52% of total quantities marketed, but only generates 45% of earnings.

Conversely, while rapeseed only represents 7% of total volume marketed, it accounts for 18% of Manitoba's receipts. The same pattern holds true in Saskatchewan and Alberta. This illustrates that the market value of each grain alone may or may not have a direct effect upon the issuance of a payment from the program, but that the quantity of each grain must also bear careful consideration.

The regional implications of these variations for the W.G.S. program have been examined, but the limited evidence available to date makes it impossible to draw precise conclusions. In general terms it is evident that each province has a relative dominance in certain grains. Thus, a downturn in the market returns for any

one commodity could have a direct impact upon the economy of a particular region such as a province. In addition, the marketing mix and relative values of the various grains makes it clear that the program is highly sensitive to the effect of wheat marketings, as wheat accounts for 58 percent of the grain receipts. Since Saskatchewan accounts for approximately 68% of wheat receipts, it is obvious that what happens in that province has a major influence upon the program.

### c) Levy Contributions

An examination of levy contributions on a provincial basis shows that total levies paid by Manitoba increased each year as well as the average amount by each participant (Exhibit F). The percentage of participants at the maximum (\$500) levy limit increased from 12% in 1977 to 18% in 1978 (Exhibit G).

Alberta participants on the other hand contributed less levy in 1978 than in 1977 with the average levy per participant declining from \$183 to \$172, while the number of participants at the maximum levy limit declined from 15% in 1977 to 12% in 1978 (Exhibit G).

Although total levy contributions by Saskatchewan participants declined slightly from 1977 to 1978, the average levy per participant increased from \$263 to \$272. The percentage of participants at the maximum levy limit increased by 2% from 23 to 25%.

The following table summarizes the total levy contribution for the first three years, plus the government's matching contribution, including interest earned by the Fund:

Producer Levy	
Contributions — 1976	24,348,493.34
<b>–</b> 1977	28,007,401.38
<b>–</b> 1978	28,415,469.68
Government	
Contribution	161,542,728.80
Earned Interest	
to 31 December 1978	20,126,778.66
TOTAL	262,440,871.86

The levy collection system operates primarily on a compulsory basis. That is, all eligible grain marketed by participants through licensed commercial channels is subject to having levy deducted at point of sale. Grain marketed through feed mills, feedlots, seed plants, etc., which are voluntarily registered under the W.G.S. program, either report the sale of eligible grains and deduct levy as applicable or only report eligible sales and provide receipts to producers, who may pay the levy voluntarily. Throughout the system some levy is not contributed because of error or oversight, or because producers do not avail themselves of the voluntary provisions. The following table compares the potential levy payable with the actual amount paid for the first three years of the program:

Column (6) shows actual levy collected and remitted voluntarily in 1977 and 1978 amounted to approximately 96% of the potential levy that could have been contributee to the Plan (Column (7)).

### d) Benefits

The grain producers of Western Canada received benefits from the program after only two years of operation. Preliminary calculations after the close of 1977 established that a payment from the Fund would be required for that year. Because results could not be confirmed until the fall 1978, a partial payment of \$60 million was issued in early May 1978. A final payment of \$55 million was issued in October 1978, for a total payment of \$115 million.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Yr.	Gross	Eligible	Part.	100% Part.	Actual Part.	Actual Part.
	Receipts	Receipts	Receipts	Pot. Levy	Pot. Levy	Actual Levy
				2% ×(3)	2%×(4)	
			(million o	dollars)		
1976	\$2,943.3	\$2,014.0	\$1,485.7	\$40.3	\$29.7	\$24.3
1977	2,869.7	1,937.5	1,451.6	38.8	29.0	28.0
1978	3,050.1	2,017.6	1,479.2	40.4	29.6	28.4

Gross Receipts (2) includes all commercial sales of the seven grains in the Canadian Wheat Board designated area. Eligible receipts (3) are gross receipts adjusted for sales by individuals who are not actual producers. Participating receipts (4) are the same eligible receipts as above but for participants only.

Column (5) illustrates that, if the plan had attracted 100% participation, the total potential levy contribution would have been \$38-40 million per year. With an actual participation rate of approximately 75%, the total potential levy contribution could have been \$29-30 million.

Results for the 1978 calendar year again indicated that a payment would be required. Preliminary estimates pointed to a total payment of approximately \$200 million. A partial payment of \$100 million was issued in April 1979, with the balance of \$153 million issued in October 1979.

Thus, after three years of operations, producers have received payments for two of those years. Exhibit H is a summary of the actual cash flow calculations for 1976, 1977 and 1978. Producers have received \$368 million in return for levy contributions of \$80.7 million over this same three-year period. In total this represents a return of \$4.56 for each \$1.00 contributed or a net return of \$3.56.

The following illustrates the benefits to a producer who contributed various amount of levy each year:

The higher limit increases the maximum individual levy contribution from \$500 to \$900. The changes in the eligibility

	1976 Levy	1977 Levy	1978 Levy	1977 Payment	1978 Payment
Producer A Fully Paid Up	\$500	\$500	\$500	\$2,197	\$4,698
*Producer B Manitoba Average 554	163	176	215	745	1,734
*Producer C Saskatchewan	224	263	272	1.070	2 276
Average 759 *Producer D Alberta	224	203	212	1,070	2,376
Average 493 *Producer E B.C.	138	183	172	705	1,543
Average 381	97	149	135	540	1,193
*See Exhibit F					

The actual distribution of the payments by province is as follows:

	1977 Payment	1978 Payment	TOTAL	
	million dollars			
Manitoba	17.9	41.5	59.4	
Saskatchewan	69.1	150.3	219.4	
Alberta	27.3	59.5	86.8	
B.C.	0.7	1.7	2.4	
	115.0	253.0	368.0	

### e) Eligible Grain Sale Proceeds

The maximum amount of eligible grain sale proceeds under the Act was initially set at \$25,000 of gross cash receipts for each producer. The intention of the eligibility limit was to include 90 percent of producers' grain sale proceeds under the stabilization plan. When the program began, the beginning years of the historical base period did include 90 percent of receipts. As the general level of grain prices increased the percent of receipts covered decreased. The actual percentages of receipts covered for 1976, 1977 and 1978 were 74, 72 and 72 percent respectively. The Western Grain Stabilization allows for the eligibility limit to be increased and for 1979 and 1980, after consultation with the Advisory Committee, the maximum was increased to \$45,000 of gross cash receipts for each producer. limit will require an adjustment to the historical average net cash flow to facilitate the determination of a stabilization payment in the corresponding year under review.

## 5. Producer Organization and Advisory Committee Concerns

The responses submitted by the producer organizations listed in Exhibit J, and reviewed in consultation with the Advisory Committee, confirms the acceptance of the Western Grain Stabilization program. All respondents recommended continuation of the basic program, with several making proposals for improvement.

General concurrence was expressed by the producer organizations and the Advisory Committee that the effectiveness of the program in meeting its objectives cannot be evaluated until the program has operated for a longer period of time. An economic evaluation was suggested as desirable after more years of operation.

The concerns identified by the producer agencies and reviewed by the Advisory Committee are summarized below:

### a) Regionalization

Concern continues to be expressed that because variation in grains marketed

occurs within the designated region the program may not be effective nor equitable in reducing uncertainty and variation in returns unless regional differences are reflected. Dividing the region into subregions such as provinces, crop districts, or soil zones has been raised as possible alternatives to treating the entire area as one homogenous unit.

There was general agreement that the experience of the program has been too limited to evaluate the necessity of regionalization, and further work should be done when more information is available.

### b) Inflation Adjustment

The net cash flow calculations specified in the present Act do not include specific provision to offset the effect of inflation (dollar devaluation) from year to year. It is a concern of producer organizations that continued inflation could seriously erode the real value of net proceeds and that the variation in net proceeds will not be reduced unless an adjustment for inflation is provided. The organizations which raised this issue recommended, and the Advisory Committee concurred, that studies be conducted to examine the implications of amending the program to include some provision to offset the impact of inflation.

### c) Depreciation as an Operating Cost

The Act at present limits production cost allowances in computing annual net cash flow to direct cash operating costs. Costs associated with capital expenditures are excluded principally on the grounds that to include them would bias investment and longer term resource allocation decisions toward the grains component of the industry.

Representations were made by some of the producer agencies that consideration should be given to including depreciation (capital replacement) expenses because in their view depreciation is no less a real cash expense than annual cash operating expenses.

The Advisory Committee endorsed the concern expressed in these representations

and proposed that the feasibility of including certain capital related costs be further examined.

### d) Farm-fed Grains

Grains produced and fed on farms are not eligible for inclusion in the program. It is contended by several producer groups that this exclusion prevents a significiant portion of the grain produced in the region from benefitting from the program, and even more seriously, limits the level of participation by individuals who regularly feed their own grain to their own livestock.

A basic principle of existing agricultural stabilization programs in Canada is that they are intended to protect producers from market risks and to do so are based on the product actually marketed. Therefore farm-fed grain has been excluded from the Western Grain Stabilization program because such grain is marketed as livestock and not as commercial grain.

The Advisory Committee has considered this issue on a number of occasions. While there is general recognition of the principles involved and concern about designing workable administrative procedures, the Committee concluded that further study should be given to the feasibility of including this component of grain production under the program in the future.

### e) Additional Grains

The Act provides that "grain" other than those formally named when the legislation was passed (wheat, oats, barley, rye, flax and rapeseed), may be prescribed for inclusion under the program, if they are grown in the designated area and are named in Schedule I to the Canada Grain Act and are designated therein as "Canada Western".

Mustard seed was prescribed by Order-in-Council for inclusion in 1977 on the grounds that its importance as a grain had reached a level throughout the area approximately the equivalent of rye, the least significant of the original grains named in the Act. Requests have been submitted to include four pulse crops

(dry beans, fababeans, peas and lentils). Some interest has also been expressed in having sunflower seed included.

The Advisory Committee believes that additional grains should be included, if requested by interested growers, at such time as they satisfy the conditions specified in the Act and the criteria applied when mustard seed was added.

### f) Participation Options

i) The Act provides that all actual producers are to be registered as continuing participants in the program unless they withdraw within a three-year period after commencing participation. Those who withdraw are granted one opportunity to re-enter following which they must remain in the program as long as they hold a C.W.B. delivery permit. The three-year withdrawal (optout) period expired on December 31, 1978, for those who had held permits from 1976 when the program was introduced.

Representations were made in some of the producer agency responses that' the condition of being permanently "locked-in" if the initial withdrawal option is not exercised is objectionable to many farmers as a matter of principle and is a significant factor in their decision on whether or not to remain as participants after the three-year optional period. The possibility of modifying the conditions of participation to provide periodic opportunities to continue or to withdraw, e.g. every 10 years, coupled with greater penalties for withdrawing and re-entering, was raised as one alternative.

The Advisory Committee expressed the firm view that changes which might relax conditions of participation should not be made unless measures were simultaneously adopted to prevent producers from manipulating their participation and thereby adversely affecting the interests of other participants and the longer term viability of the stabilization fund. While the Committee affirmed a disfavor for compulsion as a general principle, it acknowledged the necessity of a regulated approach to

participation in a program of this nature. As one means to ameliorate this issue, the Committee proposed that some form of guarantee be instituted, preferably through an amendment to the Act, that participants shall be granted the opportunity to re-exercise their participation option whenever a major change is made in the terms and conditions of the program.

ii) Participation by producers other than the actual producers named in a permit book is not permitted under the terms of the Act.

Representation has been made to amend the Act to permit certain individuals who are not actual producers, (e.g. former actual producers who become landlords), to participate. The justification for their proposal is primarily that many persons who were formerly actual producers, but who for various reasons discontinue farming and rent their land to an actual producer, remain highly dependent for their livelihood on the proceeds from their share of crops produced on their land.

The Advisory Committee's proposal was that the Act should be amended to permit participation by certain individuals who are not actual producers under the following conditions:

- only those producers who were former actual producers should be considered eligible for possible participation.
- the decision of such parties to participate should be exercised voluntarily, but once made should be subject to the same conditions as for actual producers. Eligible parties would be required to make application to participate and to provide an affidavit to verify their status as a former actual producer.

### g) Spouses

Participation by both spouses holding an interest or identified in a permit book is not permitted under the Act, whereas it is permissible for non-spousal partners, shareholders, etc., in joint or company permits who are actual producers to participate. Representations have been made by producer organizations that the limitations respecting spouses under the present Act should be removed. The Advisory Committee concurred with these representations and urged that appropriate statutory amendments be enacted as soon as possible.

### 6. Observations and Conclusions

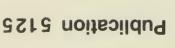
a) The basic objective of the Western Grain Stabilization program is to protect grain producers in the C.W.B. designated area from uncertainty and variation in returns due to unforeseen short-term market fluctuations and changes in production costs. Payments were made for the years 1977 and 1978 when producer net returns were lower than the previous five years average.

- b) The operational mechanisms of the program have been established. A number of the producer groups and the Advisory Committee favored the continuation of the two-installment payment arrangement, unless procedures can be changed to allow the full payment in the spring.
- c) The effectiveness of the program in reducing uncertainty of returns, either for individual producers or the overall region, cannot be evaluated until its performance can be observed over a longer time period. Such an evaluation is intended as an integral part of on-going administrative operations.
- d) The concerns and suggestions for revision which were submitted by producer agencies and the Advisory Committee are being examined and will be evaluated for their feasibility and possible implementation.

# PARTICIPATION PATTERNS BY PROVINCE, 1976, 1977 and 1978 WESTERN GRAIN STABILIZATION PROGRAM

Year and Province	Number of Participants	Number of Actual <sup>1</sup> Producers	Participation Rate in Province	Participation by Province
			Percent	Percent
1976				
Man. Sask. Alta. B.C.	24,336 65,873 39,817 1,408	31,850 84,079 53,486 1,709	76.4 78.4 74.4 82.4	18.5 50.1 30.3 1.1
TOTAL	131,434	171,124	76.8	100.0
1977				
Man. Sask. Alta. B.C.	23,813 63,670 37,744 1,299	31,663 82,682 52,272 1,642	75.2 77.0 72.2 79.1	18.8 50.3 29.8 - 1.1
TOTAL	126,526	168,259	75.2	100.0
1978				
Man. Sask. Alta. B.C.	23,594 61,095 38,071 1,345	31,394 81,625 52,742 1,700	75.2 74.9 72.2 79.1	19.0 49.2 30.7 1.1
TOTAL	124,105	167,461	74.1	100.0

<sup>1</sup>C.W.B. permit holders with reported receipts during the years shown.



# LE GRAIN DE L'OUEST CONCERNANT DE STABILISATION DE STABILISATION (1976-1978)