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AN OVERALL REVIEW OF  
GOVERNMENT GRAIN POLICIES

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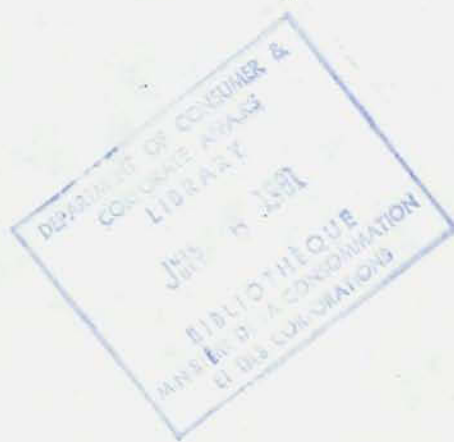
Prices Group  
(CCA)

December 1974

CCA

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AN OVERALL REVIEW OF GOVERNMENT GRAIN POLICIES



Price Monitoring Section  
Prices Group  
Consumer & Corporate Affairs  
December 1974

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PART I

AN ANALYTICAL INSIGHT INTO THE NATURE OF PAST POLICIES

## PART I

### INTRODUCTION

In 1970, the Federal Government began a program of modifying many of its previous grain policies and introduced numerous specific programs designed to improve the long-run development of Canada's grain industry.<sup>1</sup> Policy changes have continued in more recent years and in 1972, the Federal Government started reviewing the existing grain policies with the result that an interim feed grain policy was introduced on August 3, 1973. The basic ob-

- 1) Grain industry constitutes one of the most important sectors in Canadian agriculture. Its relative importance can be ascertained from the data of total farm cash receipts generated by the sale of major agricultural commodities.

#### TOTAL FARM CASH RECEIPTS - CANADA: 1935-73 (Mill \$)

Year	Wheat	Oats	Barley	Total Grains	Cattle & Livestock	Hogs	Dairy Prods.	Poultry & Eggs	Total Farm Products <sup>a)</sup>	Grains as a % of Total Cash Farm Receipts <sup>b)</sup>
Average 1935-39	166	13	14	193	79	73	111	47	624	30.9
1949	682	62	62	806	410	292	350	182	2415	33.4
1951	694	74	93	861	544	321	372	248	2736	31.5
1956	524	58	114	696	399	259	430	292	2534	27.5
1961	572	33	66	671	603	303	496	284	2924	22.9
1966	999	43	106	1148	916	414	584	402	4294	26.7
1967	1043	38	129	1210	930	409	624	372	4383	27.6
1968	973	32	121	1126	980	410	644	392	4364	25.8
1969	695	33	92	820	964	461	677	438	4200	19.5
1970	471	21	145	637	969	500	679	436	4208	15.1
1971	637	34	209	880	1080	443	706	414	4548	19.3
1972	921	32	221	1174	1196	576	779	460	5387	21.8
1973	885	45	330	1260	1576	835	842	682	6741	18.7

- a) this column represents farm cash receipts from all farm commodities produced on farms in Canada. It also includes cash received by farmers as deficiency payments.  
b) estimates

Source: Agriculture Canada. Selected Agricultural Statistics for Canada, Ottawa 1974 p. 67



jectives of the interim policy can be summarized as follows:<sup>2</sup>

1. An equitable basic price of feed grains to livestock producers in various parts of the country.
2. Order and stability throughout the livestock and grain sectors.
3. Assurance of a reasonable return to grain producers.

Elucidation of these objectives in this interim feed grain policy suggests that there were certain deficiencies inherent in the previous policies.<sup>3</sup> The new policy, which was to be replaced by a permanent policy with effect from the 1974-75 cropping session, contained the following main elements:

1. A prairie feed grains purchase and storage program under which the Agricultural Products Board

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<sup>2</sup>Economics Branch, Situation & Outlook 74  
Agriculture Canada, Ottawa 1974. p. 15

<sup>3</sup>Feed grain policies prior to August 3, 1973 produced the situation within Canada, where Eastern livestock feeders felt that they were being discriminated against because they did not have access to the cheaper non-board grain available to Western feed lot operators. On the other hand, western feed lot operators felt discriminated against as they could not trade grain inter-provincially. With a concentration of livestock feeders in Alberta and a concentration of feed grain production in Saskatchewan, Alberta often had shortages and high non-board prices, while Saskatchewan had surpluses and lower non-board prices (D.J. Clark and R.M.A. Loyns, Review of Feed Grains and Protein Meal Prices and their Impact on Livestock Production Cost. Food Prices Review Board. Ottawa May 1974. pp. 19-21

was offering to purchase feed grains within the Prairie Provinces at prices designed to prevent distress selling in that region.

2. Removal of the boundary restrictions between the Prairie provinces, thus allowing feed grains to move freely from province to province within that region.
3. Canadian Wheat Board prices to Canadian buyers in and outside the Prairies were based upon going off-Board prices within the Prairie region.

In view of these significant developments, a considerable amount of interest in the future course of federal grain policies has been rightly aroused. In order to comprehend the need for such drastic changes as recently implemented in the federal feed grain policies, however, a thorough understanding of previous policies and the problems generated by them is necessary. This paper, therefore, makes an attempt to provide an analytical insight into the nature of the past policies and the problems generated by them. At the same time, it contains an analysis of the impact of present and future policies on the development of Canadian grain industry.

Within the broad policy developments, the specific segments of the overall government's grain policies can be trichotomized into (i) transportation policies, (ii) storage and handling policies and (iii) marketing policies. These three segments are closely associated with the major directions that the government policies provide towards production of grains and determination of prices at the farm level. It seems advisable to analyse each of these policies separately.

#### TRANSPORTATION POLICIES

##### (a) Statutory Grain Rates

Most of the grain from Western Canada was shipped by railway under a system of freight rates that were fixed by federal statute in 1925.<sup>4</sup> The rates were originally established in 1899 by agreement between the government and the Canadian Pacific Railway as part of a policy to unite the nation by rail. However, the 1925 legislation made the rates established in the agreement of 1899 statutory and applicable from all points in the west "over all lines hereafter constructed by any company subject to the jurisdiction

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<sup>4</sup> After the inception of the Canadian Wheat Board in 1935, the Board, through its quota system, controlled the movement of grain from Prairie producers to country elevators. As agents of the Board, the elevator companies took delivery of the grains and made an initial payment, set by the Board prior to each crop year. (This was the basis in-store the lakehead, less handling charges and transfer costs from point of origin.) The movement of grain from the country elevators to terminal points (the lakehead, Fort Churchill, Vancouver and other export points) was controlled by the Board via shipping orders issued to the elevator

of Parliament."<sup>5</sup> These rates which were known as the Crow's-Nest Pass Rates had been extended in the early 1920's to cover grain moving to the west coast as well. Shortly after the 1925 legislation was passed, the Board of Transport Commissioners, who had the power to set freight rates subject to cabinet approval acted to equalize freight rates on grain between mainlines and branchlines. This action completed the overall rate structure on grain which has remained virtually unaltered to this day.<sup>6</sup>

One objective of this policy, which has been jealously guarded by western political interest, was that of protecting prairie grain producers from increasing transportation costs. However, it had the effect of holding freight rates on grain at levels which were substantially out-of-line with rates on other commodities, and these depressed levels along with the rate structure itself made a significant contribution to the evolution of an inefficient system of grain handling and transportation. The effect of the depressed rates introduced inflexibility into the grain transportation and handling system in western Canada. While the costs of rail service escalated over the years, railways were not able to pass these costs on to the grain companies. Grain companies, therefore, had no incentive to restructure the elevator system which might have allowed for railway cost savings.

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<sup>5</sup> Canada Grain Council, Grain Handling and Transportation-  
State of Industry. 1973 p. 16

<sup>6</sup> Ibid. p. 17

Thus the physical structure of western Canada's grain industry became distinguished by a profusion of small country elevators spaced at six to eight mile intervals across the prairies and did not change much over the years. Table 1 shows the reduction in the number of small country elevators from 1930 to 1972. It may be noted from Table 1 that the consolidation of the elevator facilities has been slow in developing. Originally this structure had evolved from the need by producers to deliver their grains by horse and wagon. These small elevators were serviced by a complex and intricate network of railway branch lines which carried the grain to terminal elevators from where it was shipped to export positions or to domestic users.

TABLE I

PRIMARY ELEVATORS IN SERVICE ON THE PRAIRIES, 1930 TO 1972

<u>Date</u>	<u>No. of licensed elevators in service</u>	<u>Index</u>
1930	5733	100.0
1940	5600	97.7
1950	5309	92.6
1960	5299	92.4
1965	5139	89.6
1966	5080	88.6
1967	5032	87.8
1968	5000	87.2
1969	4983	86.9
1970	4971	86.7
1971	4849	84.6
1972	4567	79.7

Source: Canada Grains Council,  
Grain Handling & Transportation  
- State of Industry, Special  
Committee Report, 1973.

The structure of the rates in addition to the depressed levels, also served to retard the process of primary elevator consolidation which might have taken place had the rates not been held at depressed levels. The move of the Board of Transport Commissioners after 1925 to equalize the rates that could be charged on mainlines with those of branchlines meant that there was no incentive which the railways could offer to grain companies to locate their operations on mainlines which if it had occurred, would have reduced the cost of operating and maintaining non-compensatory branchlines. In addition, the rate structure prohibited differences in the rates charged at various terminal elevators, regardless of the switching costs involved. Smaller terminals which were poorly designed or improperly located, had higher switching costs, yet the rate structure insulated them from the burden of these higher costs. Railways were also restricted from charging demurrage (a delay or detention charge) on rail cars at terminal elevators. Consequently, the terminal companies lost their incentive to unload cars quickly or to co-operate with the railways in reducing turnaround time.

In 1967, the federal government introduced an explicit national policy on transportation embodied in the National Transportation Act. The Act, with one exception, failed to deal with the inflexibility aspects of the grain rate structure. Instead the Act tended to view the problems in the grain transportation and handling system in terms of the overbuilt railway network, rather than the outdated rate structure. The exception in the Act was one which

allowed the railways to negotiate lower rail rates with the primary elevator system to reflect lower costs associated with uniform flows of multiple car movements. The legislators hoped that the elevator companies would take advantage of these lower rail rates by consolidating their operations on mainlines thus acquiring the capacity for the uniform flow of multiple car movements. With no change in the upper limits of the statutory rates however, the desired result was not forthcoming because the railways felt that as long as the statutory rates remained at depressed levels they were in no position to pass the savings that might result back to the grain companies.

While the level and structure of the grain rates had a substantial impact on the development of the grain transportation and handling system in Canada, a disturbing question remained unanswered. Why didn't the railways undertake their own consolidation through abandoning marginal branchlines? The answer once again appeared to be found in federal policies.

(b) Branch Line Abandonment

Prior to 1933 the railways were free to abandon branchlines at their own discretion. An amendment to the Railway Act in 1933, however, required that permission to abandon be obtained from the Board of Transport Commissioners. During that same year, the CN-CP Act was passed on the recommendation of the Duff Royal Commission on Transportation which recognized the existence of the overbuilt railway net-

work. Some consolidation of branchlines was achieved under the Act, but thereafter abandonment required the permission of the Board of Transport Commissioners who tended to view each application for abandonment in isolation. The Board established the criteria that the loss and inconvenience to the public must outweigh the burden that continued operation would impose on the railways. By considering each case in isolation, the Board's view tended to act as an inhibiting force towards consolidation.

It was not until 1958 that the issue of abandonment was put into a new light. The MacPherson Royal Commission, which was established in that same year to enquire into the inequities in the railway freight rate structure, debated whether the railway's losses on grain traffic were due to the statutory rates or to the overbuilt railway network. The Commission favoured the latter view and recommended that branchline abandonment not be viewed in isolation or independent of the overall rail network in western Canada. The Commission found that substantial portions of the rail network on the prairies were solely related to grain movement and carried low traffic volumes which made them potentially uneconomic. Parliament accepted the Commission's findings that railway losses were due to the operation of low density branchlines rather than to an outmoded freight rate structure and subsequently requested that the railways hold a moratorium on branchline abandonment until appropriate legislation could be drawn up. To induce railway co-operation, the government



began increasing subsidies to the railways in 1962. As a result, between 1963 and 1967, only four cases of branchline abandonment were dealt with by the Board of Transport Commissioners.

The legislation which was finally drawn up was incorporated in the National Transportation Act of 1967. It embodied the recommendations of the MacPherson Commission for putting branchline abandonment on a new basis, however, in determining whether a line should be abandoned or not, the specific regulations of the Act were rather stringent. For instance, the permission to abandon a line depended upon whether the Canadian Transport Commission was satisfied that the line was unprofitable; and could not be rendered profitable by altering the operating practices of the railway; by rescheduling and rerouting of traffic, or by restructuring of the branchlines themselves. In making its final decision, the Commission also had to consider all matters relevant to the public interest and a section of the Act directed attention to a number of specific areas.

The Act appears to have reached a compromise solution to the problem of the overbuilt railway network in Western Canada. In addition to the stringent details on how branchline abandonment should proceed, the Act also provided for compensation to the railways where unprofitable branchlines were to be maintained in the public interest. Subsequent to the passage of the Act, the government indicated that it

did not give high priority to the pursuit of rationalization of the railway network, at least for a number of years. In an Order-in-Council the government prohibited the railways from abandoning all lines in western Canada except for 1839 miles. These lines were considered protected and if they proved unprofitable could be subsidized under the provisions of the National Transportation Act.

It would appear that government transportation policies did not change much over the years despite the recommendations of the two Royal Commissions previously cited. Rail rates have remained unchanged as has the structure of the rates. Branchlines abandonment had been sluggish and all indications were that it would continue to proceed at this pace for some time to come. At the Western Economic Opportunities Conference in July 1973, the government announced that it had decided to forbid branchline abandonment on the formerly unprotected 1839 miles of track in western Canada until January 1, 1975.

(c) Railway subsidies

Railway subsidies played an important role in government transportation policies over the years. In fact, it might be argued that they have provided the government with the means of avoiding the more fundamental problems created by its other transportation policies. Rather than confront the basic problems created by statutory rates and restrictive abandonment policies, the government tended to perpetuate these problems through subsidization and to avoid

the political consequences that more fundamental changes would have on Canadian society.

To better understand the role played by the government's subsidy provisions, it is advisable to consider the areas where the railways were receiving subsidies prior to the passage of the National Transportation Act of 1967. The rail rates on grain moving to eastern Canada, because of their statutory nature, became increasingly non-compensatory in the post-war years.

As early as 1951, the government was forced to introduce a subsidy to railways to cover the cost of maintaining trackage and right-of-way through the country lying north of Lake Superior between Thunder Bay and Sudbury. The lines through this area were thought of as a "bridge" between eastern Canada and the prairies and carried very little traffic except for grain. Throughout the years 1946 to 1958, the railways were required to ask for numerous rate increases on all freight to cover rising costs. The Board of Transport Commissioners granted a number of these rate increases on all freight to cover rising costs. The Board of Transport Commissioners granted a number of these rate increases over the period and freight rates generally rose about 150 percent. Statutory grain, which accounted for about one quarter of the total ton miles of traffic for the railways was exempt from these increases.

In 1958 the Board of Transport Commissioners granted a substantial horizontal increase of 17 percent, but Parliament subsequently rolled this back to 8 percent. Grain traffic remained exempt from this but in the following year, Parliament passed the Freight Rate Reduction Act which provided a 20 million dollar subsidy to the railways for co-operating in this roll-back. The subsidies extended to the railways under the Act were general subsidies and were not tied to the provision of any particular service or facility by the railways. Thus, they applied to overall losses of the railways regardless of source.

With the passage of the Freight Rate Reduction Act, the government began a subsidy program which increased to alarming proportions in the early 1960's. There appears to be some evidence that the government had not originally intended to get involved in the subsidy business to the extent that it did. After all, the Freight Rate Reduction Act was a temporary measure and the MacPherson Royal Commission was investigating the source of railway losses on grain transportation. While the government awaited the recommendations of the MacPherson Commission, the railways were granted a rate increase on grain and flour moving from points on the Great Lakes and Upper St. Lawrence to eastern export ports by the Board of Transport Commissioners in 1961. The Cabinet quickly suspended the increase and offered a subsidy which covered the difference between the

old rates and those newly approved by the Board of Transport Commissioners.

Soon after the MacPherson Commission reported its findings and recommendations to the government, the Freight Rate Reductions Act expired in 1962. The government intended to pass legislation on these recommendations but in the meantime, extended the subsidy provisions of the Freight Rate Reductions Act. Between 1963 and 1967, this subsidy rose from 20 million dollars annually to 100 million dollars.

The National Transportation Act of 1967 provided for subsidies to railways on a new basis. It introduced subsidies for specific areas in which railways were making losses, but were providing service in the public interest.

The new basis for subsidies meant that the general subsidies in the Freight Rate Reduction Act would be phased out. The changeover to specific subsidies would take time, however, and the Act provided for a declining payment schedule for the general subsidies in existence in 1967. This declining subsidy schedule and the subsidy structure for 1967 are shown below in Table 2.

TABLE 2

THE CHANGE IN SUBSIDIES

<u>Years</u>	
1967	\$ 110,000,000
1968	96,000,000
1969	82,000,000
1970	68,000,000
1971	54,000,000
1972	40,000,000
1973	26,000,000
1974	12,000,000

Addendum:

1967 Subsidy Structure

Eastern grain subsidy	3,000,000
Bridge subsidy	7,000,000
Freight rate reduction subsidy	100,000,000

Source: Canada Grains Council, Grain Handling and Transportation, State of the Industry, Special Committee Report, 1973

The payments due to the railways would eventually exceed their share of these declining subsidies in their schedule and specific subsidies would come into force. These points were reached by the Canadian Pacific Railway in 1970 and the Canadian National Railway in 1971.

It was originally thought that the declining subsidy payments in the schedule would protect the railways from losses in the early years while the other provisions of the Act encouraged the eventual abandonment of unprofitable

branchlines. Branchline abandonment has not proceeded at a rapid pace, however, for reasons which have already been discussed, and specific subsidies have had to be increased as railway costs escalated.

Even if the government was more sympathetic towards branchline abandonment, the manner in which specific subsidies apply to unprofitable branchlines would be a somewhat inhibiting force on the process of abandonment. This possibility arises because the subsidies cover not only the costs associated with operating the branchline itself, but also some of the costs incurred in moving branchline traffic on mainlines and other segments of the railway system. In placing branchline abandonment on a new basis (i.e. not viewing each case in isolation), the National Transportation Act had to recognize that some of these losses were incurred above those attributable to the operation of the branchline itself. If the branchline were abandoned and the traffic moved to a mainline, the subsidy would cease. Since part of the subsidy covered the losses incurred in moving grain at the depressed statutory rate, the railway would be worse off than before abandonment.

#### FEED FREIGHT ASSISTANCE POLICY

Yet another federal subsidy policy and one which had a great impact on the development of the feed grain-livestock industry in Canada, was the policy of paying subsidies on the movement of prairie feed grains to Eastern

Canada and British Columbia. The Feed Freight Assistance Act of 1941<sup>7</sup> provided for transportation subsidies in prairie feed grains shipped to Eastern Canada and British Columbia. The subsidies vary from point to point and are adjusted periodically,<sup>8</sup> but in general, the farther away from the point of shipment the greater the subsidy.

Originally the feed freight assistance policy was designed to guarantee a ready source of meat for Canada's allies during the Second World War by encouraging livestock production in Eastern Canada and British Columbia. After the war the policy was continued perhaps because the new market for western grains, once established, was found to be benefiting both western feed grain producers and livestock producers in Eastern Canada. Moreover, the policy complemented the Wheat Board's pricing policy which was believed to be encouraging the consumption of western feed grains in Eastern Canada.

Over the years the feed freight assistance policy helped to correct the regional disadvantages by allowing for a more balanced development of the livestock and poultry industry in Canada. As can be seen from Table 3, cash income

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<sup>7</sup>The policy set out in the Feed Freight Assistance Act of 1941 was that the cost of feed, within Eastern Canada and British Columbia should essentially be equalized (feed freight equalization policy). However, the Act failed to specify whether the feed costs in Eastern Canada and British Columbia should be equalized with the prairies or that all transportation costs should be subsidized.

<sup>8</sup>Appendix A outlines the salient characteristics and the relevant changes in the Feed Freight Assistance Policy since 1941.



TABLE 3

CASH INCOME FROM LIVESTOCK PRODUCTION IN CANADA  
BY REGION AND REGIONAL SHARES OF TOTAL CASH  
INCOME FROM LIVESTOCK PRODUCTION, SELECTED YEARS

Cash Income From Livestock Production

Millions of Dollars

Date	Maritimes	Que.	Ont.	Prairies	B.C.	Total
1941	26.4	102.1	204.3	181.1	19.2	533.8
1951	78.6	327.8	606.4	444.0	69.3	1,526.1
1961	79.1	375.3	636.5	583.0	91.6	1,765.5
1966	94.3	481.5	865.6	768.0	125.5	2,334.9
1971	102.6	554.6	907.2	935.0	146.3	2,645.7

Source: Statistics Canada - Census of Agriculture

Cash Income From Livestock Production  
As a Proportion of Total

Date	Maritimes	Que.	Ont.	Prairies	B.C.	Total
1941	4.9	19.3	38.3	38.3	3.6	100.0
1951	5.2	21.5	39.7	39.7	4.5	100.0
1961	4.5	21.3	36.1	36.1	5.2	100.0
1966	4.0	20.6	37.1	37.1	5.4	100.0
1971	3.9	20.9	34.3	34.3	5.5	100.0

Source: Estimates

from livestock production, outside the prairie region, increased dramatically in absolute terms over the period 1941 to 1971. This expansion especially in the Maritimes and Quebec is due largely to the existence of the feed freight assistance policy. The balance achieved by the feed freight assistance policy might be indicated by the lower half of Table 3. It will be noted that the regional shares of the total cash income from livestock in 1971 are not significantly different from those of 1941 when the policy was first introduced. Without this policy, the regional income shares of those regions which had the natural advantages to produce livestock (i.e Ontario and the prairies) would most likely have increased substantially over the period. In fact, Table 3 indicates that the only regions which increased their relative shares were those which lacked the natural advantages for livestock production (i.e the Maritimes, Quebec and British Columbia).

In view of this, it would appear that the feed freight assistance policy achieved a balanced development of the livestock and poultry industry in Canada at the expense of distorting the comparative advantages of various regions.

It is generally acknowledged that the prairie region, by virtue of its natural endowments, enjoys a comparative advantage in the production of protein feeds relative to most other regions in Canada. Since feed costs constitute a substantial proportion of the total cost of livestock production, the abundance of relatively lower priced

feed grains on the prairies has to some extent, given prairie livestock producers a comparative advantage over most other regions in Canada. The role played by feed freight assistance, however, has been to reduce this comparative advantage by lowering feed costs to eastern livestock producers. This has tended to encourage the shifting of livestock production to a higher cost area, with the result that resources were misallocated and income patterns were distorted from that which would have resulted from the free play of comparative advantages.

To the extent that the feed freight assistance program encouraged livestock production in a higher cost area, it increased the total cost of livestock production in Canada. These higher costs, which were not felt directly by producers in Eastern Canada and British Columbia (because they fell on the public treasury), nevertheless, must be paid by Canadians. Against these costs the benefits of a balanced development of the livestock and poultry industry in Canada must be weighed. (Tables 4 and 5 give the expenditure estimates of Feed Freight Assistance Program).

#### HANDLING POLICIES

The role of government policy in shaping Canada's grain handling and storage system was no less important than its impact on the transportation system. It had always been a government objective to protect farm incomes and the area of storage and handling was no exception. Originally, grain handling and storage in Canada was controlled by private

**TABLE 4**  
**SHIPMENTS<sup>1</sup> AND EXPENDITURES<sup>2</sup> FOR FREIGHT ASSISTED SHIPMENTS OF FEED GRAINS**  
**BY PROVINCE-DESTINATION**

**TIME SERIES ANALYSIS - 1960-61 TO 1972-73**

	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
<b>SHIPMENTS, TON X 10<sup>3</sup></b>												
Ontario	1,084.4	573.3	892.7	739.2	769.1	893.6	713.5	618.6	1,031.5	800.6	610.6	761.3
Quebec	1,033.8	899.9	1,130.0	1,052.2	1,167.9	1,299.8	1,185.1	1,123.6	1,293.9	1,432.6	1,405.6	1,584.6
New Brunswick	87.3	77.8	85.1	78.2	82.8	77.3	94.5	102.1	105.6	106.6	107.8	110.7
Nova Scotia	149.1	124.2	145.9	137.2	161.6	148.8	152.6	161.6	172.1	179.3	192.2	195.9
Prince Edward Is.	30.2	22.6	28.6	23.1	38.6	29.8	39.8	30.7	28.5	45.3	46.3	39.2
Newfoundland	20.7	19.6	28.9	26.5	29.2	23.2	27.3	38.1	35.2	40.4	43.0	37.3
British Columbia	225.0	210.3	208.1	227.5	239.2	246.4	269.2	314.3	339.7	373.1	358.2	365.9
<b>TOTAL</b>	<b>2,600.1</b>	<b>1,927.6</b>	<b>2,519.5</b>	<b>2,283.9</b>	<b>2,488.5</b>	<b>2,718.9</b>	<b>2,482.2</b>	<b>2,389.1</b>	<b>3,006.4</b>	<b>2,978.0</b>	<b>2,763.8</b>	<b>3,095.1</b>
<b>EXPENDITURES, \$ X 10<sup>6</sup></b>												
Ontario	5.431	2.935	4.526	3.768	3.904	4.724	3.909	3.269	4.998	3.696	2.517	3.247
Quebec	7.845	7.223	8.935	8.285	9.192	9.992	9.394	8.865	9.207	9.568	9.447	10.792
New Brunswick	1.176	1.073	1.128	1.083	1.187	0.998	0.947	1.249	1.328	1.354	1.317	1.386
Nova Scotia	2.224	1.789	1.947	1.701	2.092	1.770	1.767	1.718	1.756	1.740	1.771	1.873
Prince Edward Is.	0.451	0.316	0.406	0.343	0.578	0.442	0.520	0.418	0.386	0.608	0.609	0.517
Newfoundland	0.549	0.521	0.787	0.689	0.730	0.467	0.518	0.666	0.620	0.698	0.724	0.647
British Columbia	1.841	1.731	1.714	1.993	2.067	2.206	2.739	3.205	3.095	3.204	3.073	3.079
<b>TOTAL</b>	<b>19.518</b>	<b>15.591</b>	<b>19.445</b>	<b>17.864</b>	<b>19.753</b>	<b>20.600</b>	<b>19.790</b>	<b>19.412</b>	<b>21.394</b>	<b>20.871</b>	<b>19.465</b>	<b>21.545</b>

- 1) Shipments of the freight assisted feed grains depended on the existing demand for feed grains in line with the number of grain consuming livestock units (cattle, dairy herds and poultry birds) in different provinces of Eastern Canada and British Columbia and also the domestic production of feed grains within these regions. Fluctuations in the tonnage shipped could be explained by these two variables. Livestock expansion in turn depended on the prices of feeds and the price of livestock products. Except in Ontario (because of increasing corn production), there appeared to be a general increase in the amount of feed grains shipped from the Prairie Provinces to Eastern Canada and British Columbia.
- 2) Expenditures on freight assisted shipments of grains were mainly a function of the rate of subsidy provided for different destinations. The farther away the destination, the larger the expenditure on transporting feed grains under the freight equalization program. Table 4 provides average expenditures per ton for freight assisted shipments of feed grains by province of destination, indicating that the cost of transportation is absorbed by the feed freight assistance program in order to achieve the objective of feed freight equalization policy.

Source: Canadian Livestock Feed Board. Annual Reports, Montreal

grain companies and the costs of maintaining storage and handling facilities were met from their marketing operations. Producers were protected from abuses by these companies by the Board of Grain Commissioners who were given authority by the government to establish the maximum storage and elevation charges which could be demanded by these companies. When the Canadian Wheat Board became the sole marketing agent for western grain, producers' handling and storage charges became the primary source of revenue to the grain companies and the tariff structure became an extremely important factor in shaping the primary elevator system.<sup>9</sup>

When the Wheat Board assumed the merchandizing functions formerly held by the grain companies, it engaged these grain companies as its agents and entered into agreements with them on handling charges and other administrative services. The charges negotiated in these agreements eventually came to be viewed as effective handling rates even though the maximum tariffs established by the Board of Grain Commissioners continued to apply.

The Wheat Board's monopoly power in these negotiations removed the danger of grain company abuses, but presented the problem that tariffs on grain handling and storage might be held too low, especially since the Wheat Board was

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<sup>9</sup> The magnitude of payments made by the Federal Government and the Canadian Wheat Board as interest and storage costs on wheat, oats and barley (1953-54 to 1967-68) can be ascertained from Table 6.

TABLE 5

AVERAGE EXPENDITURES PER TON FOR FREIGHT ASSISTED SHIPMENTS  
OF FEED GRAINS BY PROVINCE OF DESTINATION

Time Series Analysis 1961-62 to 1972-73

Years	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.	B.C.
(Dollars Per Ton)							
1961-62	5.0	7.81	13.47	14.92	14.93	26.56	8.19
1962-63	5.12	8.02	13.79	14.41	13.97	26.67	8.23
1963-64	5.07	7.90	13.25	13.34	14.20	27.21	8.23
1964-65	5.09	7.87	13.86	12.39	14.80	26.02	8.75
1965-66	5.07	7.87	14.34	12.94	14.97	24.99	8.64
1966-67	5.28	7.68	12.92	11.89	14.80	20.15	8.95
1967-68	5.48	7.93	10.02	11.58	13.06	18.69	10 17
1968-69	5.31	7.88	12.24	10.63	13.61	17.49	10.19
1969-70	4.81	7.12	12.58	10.21	13.57	17.61	9.11
1970-71	4.62	6.68	12.71	9.71	13.40	17.27	8.59
1971-72	4.12	6.72	12.21	9.21	13.15	16.83	8.58
1972-73	4.27	6.81	12.52	9.56	13.18	17.33	8.42

Source: Canadian Livestock Feed Board, Annual Reports  
Montreal.

acting on the producers' behalf. This problem did occur in the case of many low handling units, but in total the revenues from these negotiated agreements appear to have been more than enough to cover total costs. Because of this, a peculiar thing happened in the industry. Instead of attempting to rationalize their operations by getting rid of these low handling units, the grain companies solution had been to introduce a substantial amount of internal cross subsidization in the industry. It was common practice in the industry for grain companies to return a portion of their terminal elevator revenues to their primary elevators, many of which were small inefficient units providing services to producers at a convenient distance from farms. Revenues from the provision of storage facilities and other merchandizing services by the grain companies facilitated this cross subsidization. Moreover, because of the government's transportation policies, cost pressures from this source have been minimized as an incentive towards rationalization. It would appear that in the past other cost pressures in the industry did not accelerate to the extent necessary to cause a fundamental re-organization of grain company operations and the reaction of the grain companies to slowly rising costs has been rather sluggish.

In more recent years, costs exhibited a more rapid rate of acceleration and eventually began to have an adverse impact on the willingness of grain companies to perform some of their desired functions. At terminal elevators, for ins-

TABLE 6

INTEREST AND STORAGE COSTS PAID ON GRAINS  
BY FEDERAL GOVERNMENT AND THE CANADIAN WHEAT BOARD

1953-54 to 1967-68

	WHEAT \$ x 10 <sup>6</sup>	OATS \$ x 10 <sup>6</sup>	BARLEY \$ x 10 <sup>6</sup>	TOTAL \$ x 10 <sup>6</sup>
1953-54	52.525	2.579	4.534	59.639
1954-55	43.770	2.732	5.580	52.082
1955-56	43.396	2.792	4.386	50.574
1956-57	54.469	8.138	6.624	69.232
1957-58	56.318	5.179	4.862	66.360
1958-59	61.337	3.816	6.559	71.753
1959-60	64.900	1.624	6.508	73.033
1960-61	56.248	2.109	4.406	62.764
1961-62	49.087	1.627	2.574	53.288
1962-63	57.901	5.846	6.282	70.030
1963-64	51.093	5.637	5.656	62.388
1964-65	51.502	3.922	5.842	61.267
1965-66	41.187	3.254	7.642	52.084
1966-67	62.652	3.692	8.392	74.737
1967-68	85.231	2.024	7.841	95.097

Source: Joseph Caplan "Toward a Market-Oriented  
Canadian Grain Economy" - CJAE, Vol. 18,  
No. 1, February 1970.



tance, the grain companies often undertook certain functions for which there had been no direct charge on the marketing organization receiving the benefit. Grain cleaning and protein segregation were two such functions which indicated that total revenues exceeded costs in the past. However, as costs accelerated, they eventually had to explicitly include a charge for these services or the grain companies were unwilling to cooperate.

Evidence that costs were increasing faster than revenues in recent years had been indicated by certain incidents at Thunder Bay. Some terminal elevators were reluctant to provide either loading services for grain movements by rail to Eastern Canada in the winter months, or topping off functions on ships because the tariff structure failed to reflect the variations in comparative costs from terminal to terminal, but applied universally to all terminals. In this case, the maximum handling tariffs established by the Canadian Grain Commission<sup>10</sup> applied and revenues from other functions performed for the Canadian Wheat Board did not offset the increased costs.

#### STORAGE POLICIES

Government storage policies helped the grain companies to deal with these increasing costs over the post-war period. In the early 1950's increasing grain production in many parts of the world led to a drastic decline in Canadian

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<sup>10</sup> Formerly the Board of Grain Commissioners

exports. Storage facilities in Canada were insufficient to handle the accumulating stocks of grain which began to build up. To provide additional storage the government introduced a number of measures including the provision of accelerated depreciation allowances to grain companies on construction of increased storage facilities. As stocks continued to build up, Parliament responded with the passage of the Temporary Wheat Reserve Act (T.W.R.A.) of 1954 to mitigate the burden of these increased storage costs on producers. The Temporary Wheat Reserve Act prevented the rising storage costs from severely affecting producers' incomes by providing a storage cost subsidy to the Canadian Wheat Board equal to a full year's carrying charges on the quantity of wheat in excess of 178 million bushels which were under the Wheat Board's control in commercial positions on July 31 of each year.

Having helped to establish the facilities to store grain, the government then proceeded to subsidize the storage costs. This was a windfall for the grain companies as storage revenues and the revenues from their increased activities tended to be in excess of direct operating costs. If the government had allowed the rising storage costs to fall on the grain companies, the rising carrying costs would have had to be passed on to producers to compensate for the service. As costs increased, grain companies might have been given an incentive to become more efficient which would have led to a consolidation of their operations to provide the

service as economically as possible. As it turned out, however, grain companies were able to increase their storage volumes which, because of government assistance, enhanced their ability to deal with cost pressures. The extent to which this increased source of revenue facilitated the practice of cross subsidization in the industry was no doubt an important factor in the evolution of the present system.

The Temporary Wheat Reserve Act itself had other adverse implications for Canada's grain industry. Although the Act was originally intended to support farm incomes in the face of large stock buildups by passing the storage costs on to the public treasury, it was a temporary measure. The fact that it remained in force longer after the original crisis of the 1950's had passed, led to the unfortunate side effect of insulating producers from market influences. Producers were not punished by the market to the extent they might have been for over-production because they did not have to bear the increasing burden of high storage costs. Thus, the Act might have been an important factor in perpetuating a supply of wheat which was not only in excess of current demand, but which also put undue pressure on storage facilities. Consequently this probably encouraged the Wheat Board to accept larger deliveries of wheat in preference to feed grains which in turn tended to promote wheat production at the expense of feed grain production.

In the 1967-68 crop year, the export market for Canadian wheat collapsed once again due to record world har-

vest and increased competition. Over the next few years exports and prices fell (see Table 7) as stocks of wheat built up in Canada. Over the same period the storage subsidy rose to record levels as did the wheat stocks shown in Table 8. No attempts were made to bring production into line with market demand until 1970.

TABLE 7

EXPORTS AND PRICES OF WHEAT, OATS AND BARLEY

Crop Year	Volume of Exports (millions of bushels)			Export Prices (\$ per bushel)		
	Wheat	Oats	Barley	Wheat	Oats	Barley
1965-66	585	16	36	2.00	0.88	1.37
1966-67	515	5	59	2.12	0.91	1.39
1967-68	336	4	41	1.95	0.94	1.33
1968-69	306	3	26	1.95	0.83	1.22
1969-70	347	5	88	1.81	0.73	1.14
1970-71	435	13	180	1.79	0.82	1.13
1971-72	504	10	230	1.68	0.67	1.16

Source: Statistics Canada, Grain Trade of Canada, Ottawa.

TABLE 8

CARRYING COSTS OF WHEAT COVERED BY TEMPORARY  
WHEAT RESERVE ACT AND ENDING STOCKS OF WHEAT, 1965-1970

Crop Year	T.W.R.A. Payments (millions of dollars)	Year-End Stocks of Wheat (millions of bushels)
1965-66	33	420
1966-67	37	576
1967-68	47	666
1968-69	79	851
1969-70	53	1,009
1970-71	33	744

Source: Statistics Canada, Grain Trade of Canada, Ottawa.

The perpetuation of wheat supplies in excess of demand which was encouraged by the extension of the T.W.R.A. beyond the crisis of the early 1950's would appear to indicate that the government favoured this type of development. It might be claimed that the government's policy from the early 1950's to the late 1960's had been to take excess production into storage positions rather than bring supplies more in line with market demand. This type of policy orientation sometimes contributed to congestion in the grain handling and transportation system when exports fell and stocks built up, as was the case in the late 1960's. Moreover, as previously mentioned, the favoured position of wheat under the Act might have led to more wheat production than was called for. This in turn resulted in further congestion in the system and prevented other grains from moving to market quickly in response to changing demands. It may be noted from Table 8 that feed grain prices also declined after the 1967-68 crop year and this decline might have been aggravated by the discriminatory aspects of the Temporary Wheat Reserve Act which together with supported domestic wheat prices, after August 1, 1969, continued this bias towards wheat in spite of declining wheat export prices.

#### WHEAT BOARD POLICY AND FEDERAL POLICIES

The role of the Canadian Wheat Board in Canada's grain industry is basically to act as a marketing agent for western grain producers. However, this primary role has

often been influenced by government policies towards agriculture generally and this has sometimes forced the Wheat Board to take on social responsibilities which may not have always been in the best interest of producers. Government agricultural policies have traditionally emphasized a desire to achieve stability in farm incomes and this objective has often influenced Wheat Board policies.

#### THE INFLUENCE OF GOVERNMENT POLICY ON THE WHEAT BOARD'S QUOTA SYSTEM

An important method employed to regulate the flow of grain from farm to storage in the elevator system for the purposes of both orderly marketing and reduced congestion in the storage and transportation networks, is the Wheat Board's quota system. The quota system on domestically produced grains, has, traditionally been governed by a policy of equal treatment among producers which has often tended to interfere with the efficient handling and marketing of grain. This policy often led to a conflict between efficiency and equity. Equity was desirable from the government's point of view and demanded that all producers had an equal opportunity to deliver roughly equal amounts of grain, regardless of the kind or quality they had produced. On the other hand, efficiency required that preference be given to the kinds and quality of grains which were in demand. To understand the problems which have developed because of this policy and other shortcomings of the system, it is of interest to consider the structure of

the quota system in the past. Although the quota system has changed considerably over the years, the system in effect over most of the post-war period was initially introduced in 1954. Initial quotas were announced that year on the basis of 100 units of grain. Each producer, holding a delivery permit, was initially allowed to deliver 100 units of grain, the unit consisting of either three bushels of wheat, five bushels of barley or rye, or eight bushels of oats.

General quotas which followed the initial quotas, were based on specified acreage (i.e. acreage seeded to wheat,<sup>11</sup> oats, barley and rye; summerfallow acreage and acreage seeded to eligible grasses and forage crops<sup>12</sup>). A one bushel quota, in this case, would allow a producer to deliver a quantity of grain which did not exceed one bushel times his specified acreage. The quantity could consist of one grain or a combination of grains and, depending upon demand, this quota allocation process might be repeated several times throughout the crop year.

Quotas on special grains such as flax and rapeseed were usually based on seeded acreage of these crops with the quotas stated in terms of so many bushels per seeded acreage

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<sup>11</sup>Durum wheat was included in specified acreage in 1958.

<sup>12</sup>Specified acreage was broadened in 1957 to include cultivated grasses and legumes produced as forage.

or a specific quantity whichever was the larger. Quotas were also established to cover unforeseen situations which might develop during the crop year. Supplementary and over quotas were employed to call forward specific grains when, for various reasons, they were not forthcoming in sufficient quantities to meet sales commitments under general quotas. These quotas were in addition to the previously declared quotas and were usually defined in terms of seeded acreage or specific quantities. Special quotas might also be declared when natural disasters strike individuals or regions.

The conflict between equity and efficiency made the system inflexible and unresponsive to changing market requirements. The quota system was a producers sales quota system and not a production quota system. Hence, producers reacted to the quotas after the grain had been produced. In the past, quotas were usually announced at the beginning of a new crop year (August 1) when production was already underway or completed. When the restrictive demands of the quota system were felt by producers, their production recurrently did not correspond to market demands as reflected by the quotas. Depressed market demands in the later 1960's forced producers to make short run adjustments by attempting to deliver the highest valued grades of grain first in order to obtain the largest returns. Frequently these grades of grain had to be stored which, as previously stated, caused congestion in the handling system and prevented the rapid



movement of other grades of grain to market. Changing market demands throughout the crop year often compounded the congestion problems.<sup>13</sup> Over the longer run, adjustments could only be made with a one year time lag and by the time producers had changed their production patterns to correspond with the previous years quota experience, market requirements had again changed. Over production was often the result.

Other shortcomings of the quota system were also the result of government policies. The Wheat Board had a bias towards accepting delivery of more wheat than could be justified by market requirements, largely because of the existence of the subsidy provisions of the Temporary Wheat Reserve Act. Moreover, the quota system based on the principles of equity tended to discriminate against the most productive farmers who had to compete on an equal basis with the less productive farmers when it came time to deliver. This led to resources being misallocated and used inefficiently in the sense that the higher average cost producers continued producing without being subject to the competitive forces.

The Wheat Board provided an equal payment to all producers for like grades of grains, adjusted for transportation costs from the country elevator to terminal points. Since the prairie region is not homogeneous with respect to production possibilities, the principle of equity did not seem to make allowance for such considerations as differences

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13 Throughout the past twenty-five years, only eight to twelve years were noticeable when the Canadian Wheat Board applied a restrictive quota policy. In other years, more grain was produced than was capable of being handled through the commercial system. During such years (later 1950's), grain surplus accumulated in all areas of the Prairie provinces.

in yields among individual farm units. Hence, the quota policy based on the principle of equal treatment penalized the grain producers who obtained higher yields in that they were given the same quota as the producer with relatively lower yields. The policy led to a paradoxical situation - the producers with higher yields were burdened with additional storage costs instead of being rewarded for their efficiency.

To the extent that the quota system facilitated the orderly marketing of grains, it appears to have had some desirable income and price stabilization effects in the prairie provinces. In addition, it helped to reduce congestion in the grain transportation, storage and handling network. However, due to inadequacies in the transportation system, the quota policy could not completely achieve this objective which had adverse implications for producers' incomes when they could not deliver their grains under the quota system to clogged elevators. (Appendices B, C and D and Figures 1, 2 and 3).

#### PRAIRIE GRAIN ADVANCE PAYMENTS ACT

The federal response to the problem of congested elevators and producers being unable to deliver their grain was manifested in the Prairie Grain Advance Payments Act (P.G.A.P.A.) of 1957. Unlike the T.W.R.A. which provided for a storage cost subsidy, the P.G.A.P.A. provided for interest free advances on initial payments to producers by the Canadian Wheat Board. The advances were provided to producers on that portion of their farm-stored grain which

could not be delivered to elevators because of congestion in the transportation, storage and handling system. Usually producers did not receive any payment from the Wheat Board until it was delivered to the elevators. In addition to further isolating producers from the realities of the market, this legislation, like the T.W.R.A., also tended to discriminate against feed grains in favour of wheat.

Originally the Act provided payments of \$0.50 per bushel for wheat, \$0.20 per bushel for oats and \$0.35 per bushel for barley up to a maximum of \$3,000 per farm. The amount that any producer could eventually deliver could not exceed six bushels per acre. Because the schedule provided the highest payment for wheat, it favoured wheat production. Moreover, since wheat yields are generally lower per acre than either oats or barley, the six bushel per acre limitation provided an additional incentive to encourage wheat production rather than feed grains. When grain stocks built up in the 1968-69 crop year, the payments schedule was doubled, but the basic payments relationships for each grain remained unchanged. Thus the improved schedule, while it provided for larger payments, did not eliminate the favoured position of wheat.

In addition to this shortcoming, the Prairie Grain Advance Payments Act was inequitable to both very small and very large producers. A producer with very small acreage would accordingly receive a very small payment under this Act, regardless of how productive he was. While

a producer with vast acreage would receive the maximum \$3,000 (\$6,000 after the payments schedule was doubled) even though a producer with perhaps half as much acreage would receive the same amount.

THE INFLUENCE OF FEDERAL POLICIES ON PRICING AND MARKETING OF GRAINS

As was mentioned earlier, the primary role of the Wheat Board is that of the marketing agent for western grain producers, however, its role has often been influenced by social considerations which indicate the influence of government policies on its activities. The quota system exhibited this influence and in the area of pricing and marketing of grains, the Wheat Board has not escaped the government's concern with social responsibility.

For instance, initial prices for wheat are established by the Canadian Wheat Board on the basis of storage at Thunder Bay and Vancouver, but only after discussion with the Federal Government.<sup>14</sup> While the federal policy ma-

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<sup>14</sup>In practice, the producer price for sale to the Wheat Board was derived from pooling receipts for Board sales in both domestic and foreign markets. The producer received an initial price upon delivery of grain to the country elevator and shared equally in any final payment, i.e. revenues above the initial price minus cost of handling during the crop year. The Wheat Board used a differential pricing system for sale of its grains, i.e. it charged different prices to different markets. The Board priced grain into Eastern Canada based on the competitive price of United States corn landed in Eastern Canada. This amounted to a price in this area approximately equal to the Chicago corn price, plus transportation and an eight cents per bushel tariff. Part of the price of transport to Eastern Canada was offset by Crow's Nest Pass Rates to Thunder Bay and Feed Freight Assistance further east. See: D.J. Clarke and R.M.A. Loyns: Review of Feed Grains and Protein Meal Prices, and Their Impact on Livestock Production Costs. Food Prices Review Board, Ottawa, May 1974. p. 19

kers may have played a rather passive role in these discussions, there are indications that they may have influenced the export price of Canadian wheat.

In the past, export prices for wheat usually adhered to the price range negotiated by federal representatives in a series of International Wheat Agreements.<sup>15</sup> These agreements were originally established between the major grain exporting and importing countries to promote stability in wheat prices and orderly multi-national trade in wheat. The last International Wheat Agreement expired in 1967 and the new International Grains Agreement which eventually replaced it on July 1, 1968, was breached before it became effective. The record world wheat production of the 1967-68, 1968-69, and 1969-70 crop years and the decline in export demands, forced many countries to dump their excess wheat supplies at low prices. The erosion of Canada's competitive position during this period, was intensified by several factors. Under the International Wheat Agreement, the price of No. 1 Northern Canadian Wheat, basis in store Thunder Bay, was specifically fixed while the maximum and minimum prices of other exporting countries' wheats were calculated from this base. In practice, however, Canada was the only country tied by the Agreement because she was the only producer of

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<sup>15</sup> Feed grains moving into foreign markets were competitively priced with exported United States corn and often sold at prices at or below Eastern Canadian prices. Ibid p. 19.

No. 1 Northern. Other countries could bypass the Agreement by changing their grades and wheat qualities and were able to undercut Canada's price. The United States, for example, changed its wheat policy in 1966 which had an adverse impact on Canada. Wheat acreage allotment in the United States was increased 30 percent and a modified two-price system for wheat was established which allowed the U.S. to begin aggressive selling in world commercial markets.

Canada stubbornly attempted to adhere to the minimum price of \$1.95½ per bushel for No. 1 Northern established by the International Grains Agreement of 1968, but as international prices continued to fall in the face of a world wheat glut, she was eventually forced to abandon this position on August 1, 1969. Canada's reluctance to give up on the International Grains Agreement of 1968 indicates the importance which the Canadian policy makers had attached to the promotion of stable international wheat prices. This objective may have influenced the Wheat Board's pricing policy in the face of the changing international price structure, and caused Canadian wheat prices to remain at levels which were inconsistent with competitive market conditions. By maintaining wheat prices at unrealistically high levels, the Wheat Board did not necessarily act in the best interests of

ducers.<sup>16</sup> Instead it would appear that its primary role as a marketing agency may have been compromised by the government's commitment to maintain stability in international wheat prices.

While government policy in relation to the marketing and pricing of wheat have been rather aggressive, its policies in relation to the marketing and pricing of feed grains have been rather negligent in the post-war period. The past export demand performance of Canadian feed grains would appear to indicate that prices have not been very competitive in export markets.<sup>17</sup>

The failure to develop the export market for feed grains as a source of protein feeds for livestock, reflects the attempts by the Wheat Board to obtain the highest possible price for feed grains which to some extent has kept feed grain prices above levels which are competitive with alternative sources of feed. The export market for Canada's

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<sup>16</sup> Data in Table 9 indicates that Canada's share of wheat in the foreign trade experienced a substantial decline in the period 1966-67 to 1968-69.

<sup>17</sup> Wheat Board prices for Canadian feed grains have not been competitive in exports with U.S. corn. Canadian feed grain exports have served specialized premium markets for Canadian oats (e.g. U.K. horses) and Canadian barley (e.g. malting barley), but have not competed for bulk use as a cheap source of energy and nutrients in animal feeds. Barley breeding policy has reflected this emphasis in insisting that all barley varieties pass rigid malting quality tests, even if such insistence reduces yield per acre. Canadian barley and oat prices have moved closely in line with U.S. barley and oat prices but have not been competitive with the rapidly expanding bulk feeds of corn and soybeans. Wheat, Feed Grains and Oil Seeds, Federal Task Force on Agriculture, Ottawa, 1969. p. 28.

TABLE 9  
CANADIAN EXPORTS, WHEAT, OATS & BARLEY  
1953-54 to 1968-69

Year	WHEAT*		OATS		BARLEY	
	Absolute Bushel x 10 <sup>6</sup>	As a % of World Trade	Absolute Bushel x 10 <sup>6</sup>	As a % of World Trade	Absolute Bushel x 10 <sup>6</sup>	As a % of World Trade
1953-54	255.1	30.0	70.7	51.0	93.7	35.0
1954-55	251.9	26.0	22.3	32.0	80.8	33.0
1955-56	312.3	30.0	4.1	6.0	68.7	24.0
1956-57	264.4	22.0	18.7	21.0	81.5	24.0
1957-58	320.3	30.0	26.2	23.0	80.3	26.0
1958-59	294.5	26.0	7.5	9.0	70.4	24.0
1959-60	277.3	24.0	6.1	6.0	63.7	23.0
1960-61	353.3	25.0	2.7	3.0	47.2	18.0
1961-62	358.0	22.0	3.4	4.0	42.9	13.0
1962-63	331.4	22.0	21.7	26.0	15.4	7.0
1963-64	594.5	29.0	18.7	24.0	46.9	15.0
1964-65	399.6	22.0	15.5	16.0	37.0	12.0
1965-66	584.9	27.0	15.9	16.0	38.0	12.0
1966-67	515.3	27.0	4.8	6.0	58.5	20.0
1967-68	336.0	19.0	3.5	5.0	41.4	14.0
1968-69	305.8	19.0	2.7	4.0	26.4	11.0

\* Includes wheat flour in terms of wheat.

Source: Joseph Caplan: Toward a Market-Oriented Canadian Grain Economy, CJAE, Vol. 18, No.1  
February 1970



feed grains had, no doubt, been limited to some extent by trade policies in some markets,<sup>18</sup> however, more flexible pricing practices by the Wheat Board could have led to new markets in other areas. The government did not interfere with the Wheat Board's pricing practice during most of the post-war period, rather, the government seemed to be preoccupied with wheat policies which emphasized wheat production and export at the expense of feed grains.

On the domestic market, the feed grain pricing practices of the Wheat Board were supposedly designed to make prairie feed grains a competitive source of protein feeds in Eastern Canada to encourage the purchase of western feed grains as an alternative to U.S. corn. In order to make prices competitive, however, other measures were necessary. Feed grains shipped to Eastern Canada were protected by an 8 cents a bushel tariff on U.S. corn and transportation costs were offset by feed freight assistance in Eastern Canada and the low crow rates from Western Canada to Thunder Bay. Table 10 indicates that without these additional measures, western feed grains would not have been competitive in Eastern Canada with U.S. corn.

Despite these measures, a considerable amount of U.S. corn continued to be imported into Eastern Canada and

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<sup>18</sup> The European Economic Community, for instance, protected European grain producers with a system of fixed tariffs and variable import levies which tended to limit the ability of foreigners to undercut European prices.

TABLE 10

COMPARISON OF U.S. AND CANADIAN FEED GRAIN PRICES, SHOWING LANDED COSTS OF CANADIAN FEED GRAINS AND U.S. CORN IN MONTREAL, 1962-63 to 1966-67, WITH AND WITHOUT FEED FREIGHT ASSISTANCE AND WITH AND WITHOUT TARIFF CHARGES ON U.S. CORN.

(A) Actual Landed Prices in Montreal including Feed Freight Assistance and Tariffs on U.S. Corn

Year	Landed Cost per Ton of Grain					Landed Cost per Ton of T.D.N.*				
	Canadian	No. 1	No. 1	No. 2 U.S.		Canadian	No. 1	No. 1	No. 2 U.S.	
	Feed	Feed	Feed	Yellow		Feed	Feed	Feed	Yellow	
	Wheat	Oats	Barley	Corn	(Canadian dollars per ton)	Wheat	Oats	Barley	Corn	
				A	B				A	B
1962-63	56.23	45.71	48.42	52.71	50.10	67.48	63.99	61.49	65.36	62.12
1963-64	54.90	43.13	44.47	55.14	53.28	65.88	60.38	56.48	68.37	66.07
1964-65	54.44	47.01	50.09	56.56	54.71	65.33	65.81	63.61	70.13	67.84
1965-66	54.67	50.89	52.13	56.46	54.21	65.61	71.25	66.21	70.01	67.22
1966-67	60.22	53.12	52.55	60.53	58.31	72.27	74.37	66.74	75.06	72.30

(B) Theoretical Landed Prices in Montreal Without Feed Freight Assistance and Tariffs on U.S. Corn\*\*

Year	Landed Cost per Ton of Grain					Landed Cost per Ton of T.D.N.				
	Canadian	No. 1	No. 1	No. 2 U.S.		Canadian	No. 1	No. 1	No. 2 U.S.	
	Feed	Feed	Feed	Yellow		Feed	Feed	Feed	Yellow	
	Wheat	Oats	Barley	Corn	(Canadian dollars per ton)	Wheat	Oats	Barley	Corn	
				A	B				A	B
1962-63	63.63	53.11	55.82	49.85	47.24	76.36	74.35	70.89	61.95	58.71
1963-64	62.30	50.53	51.87	52.28	50.42	74.76	70.74	65.87	64.96	62.21
1964-65	61.84	54.41	57.49	53.70	51.85	74.21	76.17	73.01	66.72	63.98
1965-66	62.07	58.29	59.53	53.60	51.35	74.48	81.61	75.60	66.60	63.36
1966-67	67.62	60.50	59.95	57.67	55.45	81.14	84.73	76.14	71.65	68.44

\* T.D.N. means "Total Digestible Nutrients".

A: from Chicago

B: from Toledo

\*\* These are the comparative prices at which exports to other countries would leave Montreal.

one of the reasons for this concerns another aspect of the Wheat Board's pricing policy for feed grains. Feed grains, such as oats and barley were sold on either the Winnipeg Commodity Exchange or on a cash basis at Thunder Bay, Vancouver or at country points. While export and domestic prices were determined in part by the use of the Winnipeg Commodity Exchange, they were also determined on the basis of periodic sales, either on bids or offer prices at the previously mentioned selling points. Because the Wheat Board was the only seller in the market, it could often manipulate prices by controlling supplies.

It has been argued that during the 1960's, the activities of the Wheat Board resulted in a discrepancy between the spot and futures market for feed grains.<sup>19</sup> Usually an agricultural commodity experiences a price increase over the off-season which reflects the cumulative storage costs of that commodity. In the case of barley and oats, however, the futures prices on the Winnipeg Exchange have often tended to be below the cash prices earlier in the season. In fact, cash prices at many of the selling points did not use to reflect these storage costs which would have eventually brought them into line with the fu-

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<sup>19</sup> See Canadian Agriculture in the Seventies, Report of the Federal Task Force on Agriculture, Ottawa, December 1969.

tures prices. Grain dealers in Eastern Canada were unable to hedge their risks therefore, and were unwilling to buy grain early in the season for future sale. By discouraging purchases of oats and barley for storage and sale at a later date, the Wheat Board was encouraging eastern grain producers to buy U.S. corn which led to an "artificial" shortage of prairie feed grains in Eastern Canada.

The pricing policies of the Wheat Board which limited the markets for Canadian feed grains had a severe impact on farm incomes in the prairie region. As the marketing agent for prairie feed grains, the Wheat Board in the past, exercised a monopoly on export sales as well as on the inter-provincial movement and sale of feed grains. Producers within the Wheat Board area were prohibited by law from selling directly to foreigners or to anyone outside the province in which the grains were produced. The effect of this Wheat Board monopoly power combined with its non-competitive pricing of feed grains was to force grain producers, who could not deliver their excess supplies of grain to the Board under its restrictive quota system to sell their grain within the prairie province in which they were produced at very low off-Board prices. These prices were exceedingly depressed in the later 1960's as exports declined and stocks built up and had a severe impact on farm incomes. One of the side effects of this development during the period was that livestock production on the prairies began to expand

on the basis of cheap feed grains.

This pricing policy which tended to encourage livestock production in Western Canada was inconsistent with the previously mentioned feed freight assistance policy, which tended to encourage livestock production in areas in Eastern Canada and British Columbia which otherwise might not produce livestock. Thus, the Wheat Board's pricing policy which was originally designed to be congruent with feed freight assistance, was in practice, found to be working in the opposite direction. Eastern livestock producers which at one time enjoyed the full benefits of the feed freight assistance policy, now had to pay substantially higher prices for the same prairie grain that western livestock producers used. Eastern livestock producers accused the Wheat Board of price discrimination and western grain producers who were suffering the most from low off-board prices and surplus grain, joined their eastern customers in demanding reform of the feed grain marketing system.

CONCLUSION - PART I

The feed grain marketing crisis of the later 1960's and the depressed export markets for Canadian wheat emphasized the need for policy reforms. Previous policies had contributed to this crisis by encouraging overproduction and limiting the markets for grains. They had also helped to support an inefficient system of grain transportation, storage and handling which was in dire need of rationalization. The discriminatory aspects of various policies also needed reassessment, especially those which favoured wheat production as opposed to feed grains. A co-ordinated attack on the grain industries problems was necessary. In 1969 the government began to introduce a series of policy modifications which continued to the present time. Review of these policies is attempted in Part II of this report.

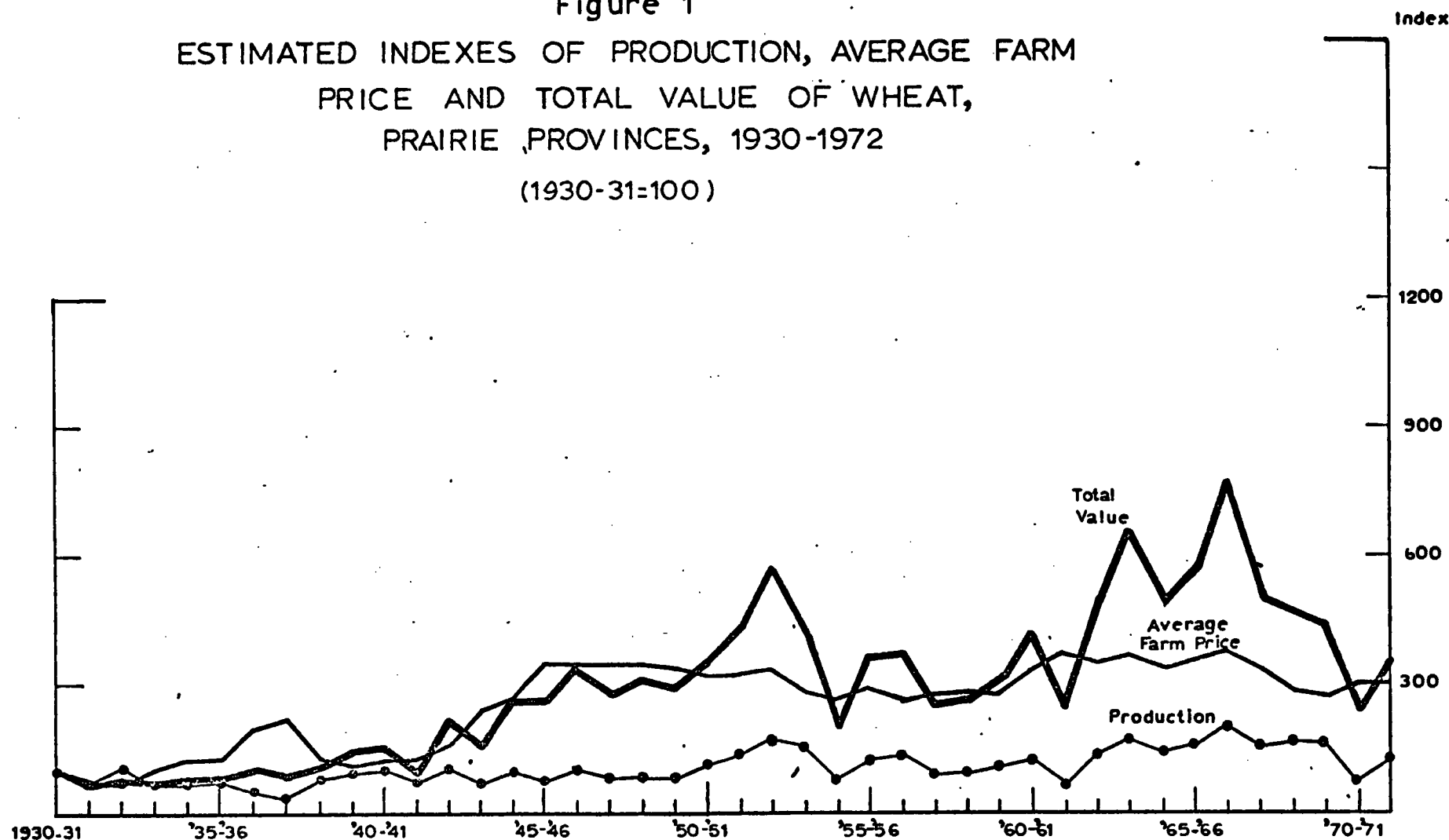
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Appendices B,C, and D provide the data on production, average farm price and total value of wheat, oats and barley. Indices of the data are plotted in Figures 1, 2 and 3.

Figure 1

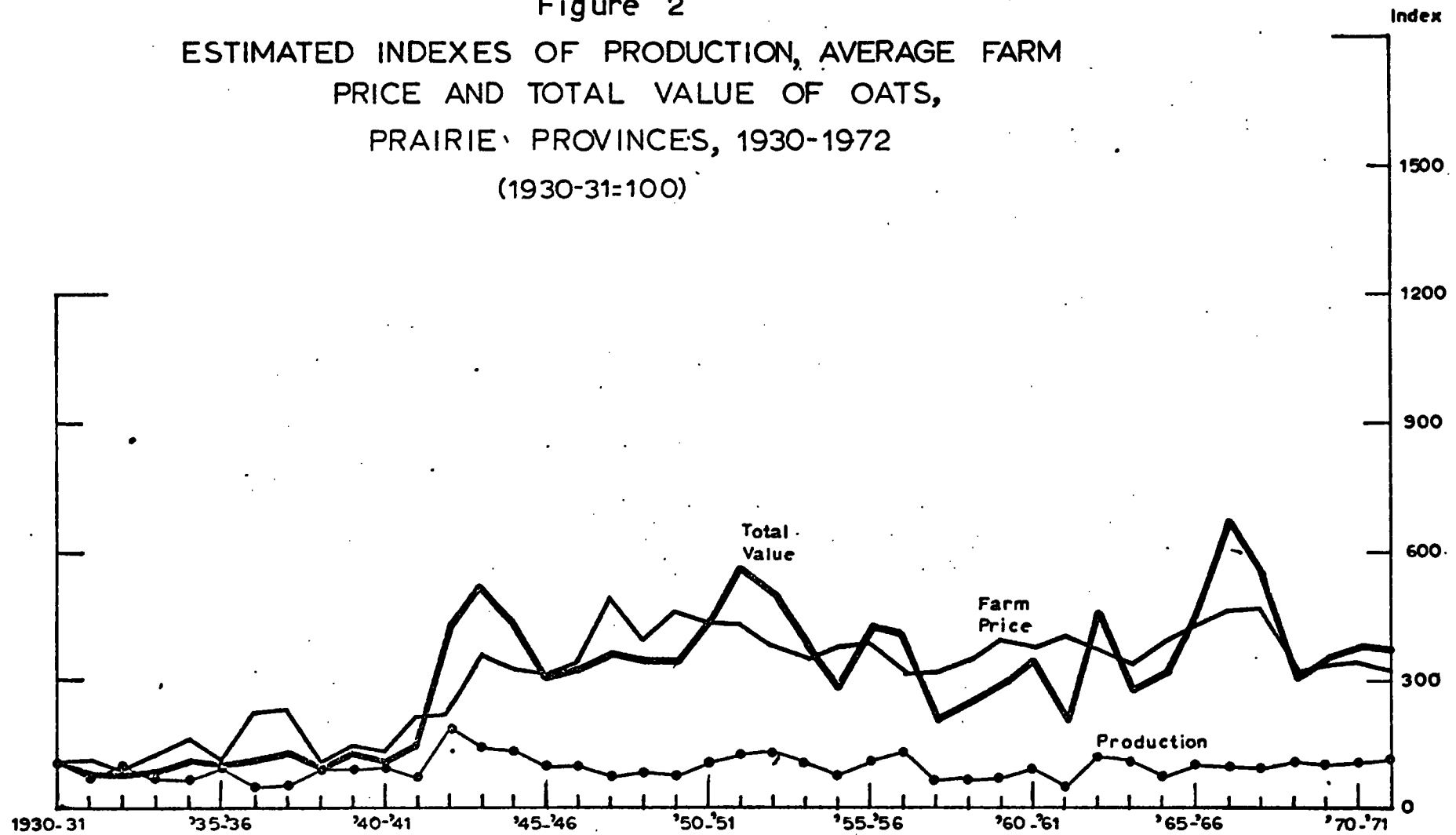
ESTIMATED INDEXES OF PRODUCTION, AVERAGE FARM  
PRICE AND TOTAL VALUE OF WHEAT,  
PRAIRIE PROVINCES, 1930-1972

(1930-31=100)



SOURCE: Statistics Canada, Agricultural Division, Ottawa

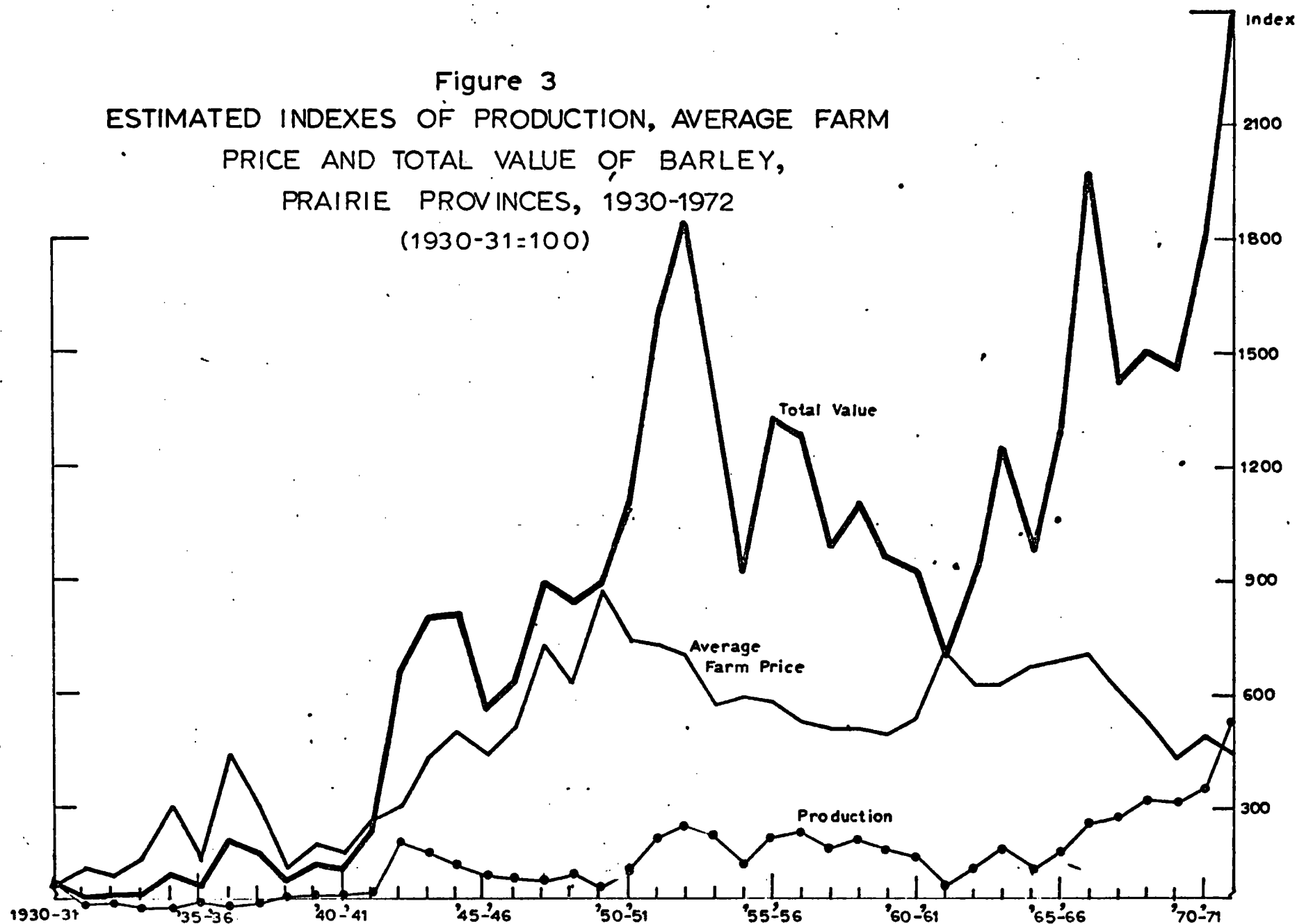
Figure 2  
ESTIMATED INDEXES OF PRODUCTION, AVERAGE FARM  
PRICE AND TOTAL VALUE OF OATS,  
PRAIRIE PROVINCES, 1930-1972  
(1930-31=100)



SOURCE: Statistics Canada, Agriculture Division, Ottawa



Figure 3  
ESTIMATED INDEXES OF PRODUCTION, AVERAGE FARM  
PRICE AND TOTAL VALUE OF BARLEY,  
PRAIRIE PROVINCES, 1930-1972  
(1930-31=100)



SOURCE: Statistics Canada, Agriculture Division, Ottawa.

PART II

AN EVALUATION OF CHANGES IN GOVERNMENT POLICIES

RECENT CHANGES IN GOVERNMENT POLICIES

Government policies towards Canada's grain industry underwent important changes beginning in 1969, when for the first time, a Minister was appointed to deal specifically with grain matters. A special group of expert advisors was appointed by this Minister to advise him on the co-ordination and intensification of grain policy development. It is important to note that this event marked the beginning of a new and more aggressive approach by federal policy makers. This new orientation was to ensure that all aspects of the various programs were developed and implemented in a co-ordinated manner in contrast to the methods used in the past.

The Minister and his group of grain advisors quickly recognized that they faced a monumental task. Nevertheless, there were serious immediate problems which would have to be solved before more long range plans could be developed. In 1969 the most pressing problems were the overproduction of wheat in Western Canada and the depressed export markets. A co-ordinated effort to correct both situations was necessary. Action had already been taken by the government on April 1, 1969 to protect producers incomes in markets over which it had some control. At that time, the government guaranteed producers that the price of top quality wheat, sold in Canada for domestic use, would not fall below the minimum price established under the International Agreement of 1968 (i.e. \$1.95½ per bushel). While this measure established a floor

price for wheat used for domestic consumption, other than for feed use, world prices dropped below this minimum.

Table 11 indicates that domestic millers were paying a minimum of \$1.95½ per bushel for No. 1 Northern Wheat even though foreigners paid less in the crop years 1969-70 and 1970-71.

TABLE 11

WHEAT PRICES: DOMESTIC AND EXPORT, 1967-70

Crop Year	Export Price/bushel	Domestic Price/Bushel
1967-68	\$ 1.94	\$ 1.94
1968-69	1.95	1.95
1969-70	1.81	1.95½
1970-71	1.79	1.95½

Source: Statistics Canada, Grain Trade of Canada

The ability of this policy to protect farm incomes was not particularly extensive, however, when one considers that domestic consumption of wheat accounted for only about 10 percent of total domestic production. Because of this, the Grains Group brought forward a co-ordinated attack on the excess supplies of wheat in Canada by concentrating on the other 90 percent of production which could not be absorbed domestically.

The Grains Group proposed a plan to reduce substantially the excess supplies of wheat in Canada and bring production into line with market demand. Beginning in the 1970-71 crop year, a program called operation LIFT (Lower Inventories for Tomorrow) was introduced. The program was intended to reduce wheat acreage and to this end the government undertook to compensate producers for reducing wheat acreage. Payments of six dollars per acre were made to producers who converted wheat acreage to summer fallow, and ten dollars per acre for additions to perennial forage. Accompanying this program was a revision of the Wheat Board's delivery quota system in the 1970-71 crop year. Delivery quotas were based on what was called "assignable acreage", which consisted of a producer's 1970 summer fallow; one quarter of his 1969 summer fallow; one quarter of newly broken land; land seeded to other crops; other than cereals, oil-seeds and forages and any increase in the land seeded to perennial forage.

By basing quotas on acreage other than that seeded to wheat and using the additional incentive to reduce wheat acreage, provided by the LIFT program, the government was able to reduce wheat acreage from 24.4 million acres in 1969 to 12.0 million acres in 1970. At the same time, total wheat production decreased from 665 million bushels to 313 million bushels (Appendix B). The impact of this program

stands in marked contrast to previous government policies which encouraged over production. While the program might have been interpreted as just another ad-hoc solution to the immediate problem of carry over stocks, which in the 1969-70 crop year were the equivalent of two years domestic disappearance, the fact remains, that for the first time the government took action to bring supply more into line with market requirements (Figure 4). This precedent now firmly established, will no doubt have implications for the longer term adjustments in the grain industry.

#### THE NEW PRAIRIE GRAINS POLICY

The longer term development of co-ordinated grain policies was begun by the Grains Group as it gathered a fund of expertise on grain matters. Advisors and committees were established to deal with such problems as transportation, storage and handling; new product development; productivity and marketing. These steps led to what has been called a New Prairie Grains Policy and the changes in each of the areas developed in this new approach are considered below.

#### PRODUCTION AND NEW PRODUCT DEVELOPMENT

It will be recalled that prior to 1971, initial prices and minimum quotas were announced around August 1, which marked the beginning of a new crop year. By this time it was too late to change production plans to keep

pace with market requirements. Beginning in 1971 estimates of market requirements for the succeeding year were made in advance of the crop year and initial prices and quotas were announced on March 1, thus giving farmers enough time to change production patterns for the 1971-72 crop year. Moreover, market intelligence on world and domestic demand was made available to producers at this time to facilitate their production decisions. This practice has continued in each crop year since, and provides evidence that government policies have moved towards balancing supply and demand and away from encouraging over production as in the past.

Another program introduced in early 1971 supports this conclusion. The government believed that, on the basis of their estimates of market conditions in 1971, more than enough land was under cultivation for wheat and feed grains to meet demands. To reduce some of the excess production of grains, the government introduced a program to increase forage production. In addition to curbing grain production, the program was designed to provide an alternative source of feed which would benefit prairie livestock producers. Market forecasts in 1971 indicated that an expansion of livestock production on the prairies would be desirable, and therefore, there appeared to be a sound basis for proceeding with the program. The aim of the program was to increase total forage acreage from 12 to 16 million acres over a three year period, with the federal government providing a 10 dollar per acre

incentive to producers who switched from grains, oilseeds, and other crops to forage. To qualify, a farmer had to increase his forage land at least 25 acres. The incentive applied for three years or on 4 million acres, whichever came first, and was administered by the Prairie Farm Assistance Administration.

Among the important studies which were undertaken by the Grains Group, was one to improve the delivery quota system by introducing a factor which takes account of differences in productivity. In earlier section it was referred to the Wheat Board's quota system as one of the most important impediments to the efficient marketing of grains. Moreover, the misallocation of resources which resulted from the efficient producers being placed on an equal basis with the less efficient producers when it came time to deliver, had been a serious deficiency of the quota system. After taking into account the various social implications, the study failed to arrive at any firm recommendations. Nevertheless, the undertaking of the study was a conspicuous step forward, and indicated the government's concern with the effects of the quota system on efficient production.

Another measure designed to protect farmers' incomes from crop failures, was the introduction of a joint federal-provincial crop insurance program in 1971. This replaced the Prairie Farm Assistance Act. Under the program, the federal government pays 25 percent of the premium cost



and shares the total cost of administration with the prairie governments. While in itself, this measure may not seem significant, it illustrates the general tenor of the new Prairie Grains Policy which was to co-ordinate the policies of the federal government and to escape the ad-hoc approach of the past.

Of greater significance was a joint mission of industry and government officials which visited all major rapeseed markets during 1971 to study the market potential for low erucic acid rapeseed (LEAR). The mission found that LEAR was preferred to other varieties and the government undertook to have the necessary multiplication of suitable varieties done as soon as possible. These efforts by the government indicated that a trend towards the promotion of exports of Canada's feed grains and oilseeds is beginning to gain momentum. It was expected that as soon as the continuity of commercial supplies of LEAR could be assured at competitive prices, the domestic food oil industry and export markets would concert completely to LEAR.

#### CHANGES IN TRANSPORTATION, STORAGE AND HANDLING POLICIES

As part of the development of the New Prairie Grains Policy, the Grains Group carried out and commissioned detailed studies into practically all aspects of the grain storage and handling system in Canada. While the aim of these studies was to examine the problems in this area and develop possible programs for the eventual rationalization

of the system, very few fundamental changes in the system were implemented despite the recommendations to do so. Once again the government shied away from dealing directly with the fundamental deficiencies of the system (i.e. the statutory freight rates, and the grain handling tariff structure). Instead the government took the position that because of the difficult social questions associated with rationalization, its role was to be confined to that of consulting on and co-ordinating proposed changes, rather than arbitrarily imposing such changes on the system. Through consultation with all segments of the industry and other levels of government, the federal authorities hoped to eventually make progress towards improving the system while at the same time dealing with the social implications of these improvements. This process already made some progress towards modernizing the transportation and handling system.

One of the important developments was the establishment of the Block Shipping System on the prairies, which began on an experimental basis in February 1969 and remained in force since that time. The introduction of this system led to the division of the prairies into 48 geographical districts, which were drawn up in accordance with the rail network, in such a way that each block was serviced by a particular section of the railway. Prior to this, the main protagonists in the grain industry had no common basis for organizing grain movements. The Wheat Board worked on a

provincial basis and freight rate zones, the grain companies worked in terms of districts, while the railways used divisions and subdivisions. By defining areas which were common to all organizations involved, the responsibilities for planning and control could be established at various levels in the system.

The responsibilities of each organization, which were established under the system, are listed below:

- (i) Responsibilities of the Canadian Wheat Board
  - (a) to analyse forward commitments and to ensure that the types and quantities of grain required are ordered from the country in time to meet those commitments;
  - (b) to determine locations and levels of country stocks and on this basis to allocate orders between blocks and between companies;
- (ii) Responsibilities of the Elevator Companies
  - to allocate orders to individual country elevators within blocks and by so doing to exercise management over stock levels at individual points;
- (iii) Responsibilities of the Railways:
  - (a) to distribute cars between blocks in accordance with the Canadian Wheat Board's shipping program;
  - (b) to place cars at elevators in accordance with the companies allocation of shipping orders;

(c) to move the loaded cars to terminal elevators.

Once the responsibilities of each organization were established, orders were placed on a weekly basis, which led to the development of a regular routine for updating information and establishing a closer relationship between orders and requirements. Moreover, orders became associated with railway cars, which constrained the railways from distributing cars in other than the manner determined by the Wheat Board and grain companies.

The initial effect of this new system was improved co-ordination which allowed the Wheat Board to meet specific commitments on time. Sales could now be matched more closely with orders, which in turn could be matched with the necessary rail cars. Contents of these cars could be matched to meet requirements exactly on a weekly basis, which in turn reduced terminal congestion. Elevator companies were no longer at the mercy of the railway companies because the railways no longer had the responsibility for car distribution. The railways were not entirely at the mercy of the grain companies however, as the Wheat Board attempted to ensure a minimum of turnaround time at the grain company elevators. Certain cost savings are inherent in the system as well. The smoother operation has led to railway cost savings and the better inventory management has led to savings for the grain companies. The success of the Block System is indicated by its acceptance - moving from being an experiment to being an essential part

of the grain transportation system in Western Canada.

Soon after the establishment of the block shipping system, a new innovation was introduced in the transportation system. Elevator companies agreed to pool their grain cars. Prior to its implementation, primary elevators usually assigned their grain to terminals which were owned by the same company or other terminals with which an agreement had been worked out. The result was that sometimes one company's terminal would sit idle, while another company's terminal would be working to capacity. Under the pooling arrangements which were worked out, cars of board grains could be moved to any terminal elevator regardless of the originating company. While this innovation not only fit in well with the block system, it also had the additional advantage of improving the utilization of terminal elevators and reducing the sorting and switching tasks of the railways.

If government policy makers eventually want to rationalize the grain transportation and handling system, one method of moving in this direction is to experiment with different methods of transportation. The block system was one experiment which worked out well and another which is being tried is an experiment to provide data on trucking grain from primary elevators to inland terminals. A program in Saskatchewan has been undertaken by the Wheat Board, The Canadian Grain Commission, the two major railways in co-operation with the grain companies and their primary elevators and the Saskatchewan Trucking Association. The objective of this

experiment was to compare truck with rail to determine the speed of movement, degree of equipment and facility use, case of scheduling and rates of loading and unloading. Thus far, the operation has only involved barley, which was needed in a forward export position because of rapid change in market demand. Depending upon the results of these experiments, some progress might be made towards solving the problem of unprofitable railway branchlines and the over-built rail network in Eastern Canada.

#### MARKETING

The large stocks of unsold grains on the prairies in the latter 1960's eventually forced the federal government to reassess its marketing policies. In 1968 the federal government revised and expanded its credit facilities in order to improve the competitive position of Canada's grains. As a result, during the 1971-72 crop year, more than one third of Canada's wheat exports were made possible because of these expanded facilities. In early 1971, the Canada Grain Act was amended to provide for the selling of wheat on a protein basis, which also helped to improve Canada's competitive position. Prior to this, competition from the United States and Australia had made substantial inroads on traditional Canadian markets. The methods used by these foreign competitors to bypass the provisions of the International Wheat Agreements to undercut Canadian prices have already been discussed, however, the

fact that they began to offer wheat with guaranteed protein content at competitive prices is another aspect of the problem. The mid 1960's were years of expanding wheat acreage in Canada and as acreage expanded, areas of low protein content did also. Canada's wheat grading system failed to keep pace with changes in other countries and customers soon began to complain about the variability in protein content in Canadian grains. The new protein grading system incorporated in the Canada Grain Act was designed to ensure guaranteed minimum protein contents for different grades in order to make Canadian grains more competitive.

The importance of this new aggressiveness in marketing policy should not be taken lightly. In the mid 1960's a significant breakthrough in bakery and cereal technology occurred which made it possible to make bread out of lower quality wheats. Canada now has to compete in markets which may demand specific protein contents since other countries can now use relatively much more of their own domestically produced low quality wheat for bread making.

On the domestic front further amendments were introduced to help domestic producers market their grains. During the 1971-72 crop year the Prairie Grain Advance Payments Act was amended with the six bushel per acre limitation on grain deliveries replaced with a minimum quota level announced for

( Each grain. The payments schedule was also revised to provide for 2/3 of the initial payment for that grade of each grain which was expected to be delivered in the greatest volume during the crop year. This established advances on oats and barley which were comparable with wheat and reduced the preferential treatment accorded wheat over feed grains in the Act. The maximum advance to an individual producer remained at \$6,000, however, and the inequities between small and large producers remained.

As exports of barley increased substantially in the 1970-71 crop year, mainly because of damage to the U.S. corn crop, it became evident that the west coast port of Vancouver could be used more efficiently. Since this required an amendment to the Wheat Board Act it would have to be amended. In 1970, because of this and other problems encountered in administering the Act, a review of these problems as they related to the Act was undertaken. By the summer of 1972, the Act was amended and allowed the Wheat Board to accept delivery of oats and barley basis in stores in Vancouver as well as Thunder Bay. Barley and oat producers in the western prairies could now enjoy the direct benefit of lower freight costs on these grains shipped through Vancouver. The change also ended a discriminatory delivery practice by enabling the Wheat Board to accept delivery of barley and oats on the same basis as wheat.

Other changes in the Wheat Board Act dealt with some of the other weaknesses in the legislation which had resulted from modifications in other Acts since the New



Prairie Grain Policy had been introduced. In particular, the quota delivery base had to be adjusted to incorporate the assignable acreage feature introduced under the new quota system in the 1970-71 crop year. The practice of announcing minimum quotas prior to the beginning of the crop year meant that the Act had to be changed to take account of those years in which the minimum quota levels may not be achieved. The Act was changed to allow producers to deliver any balance of the announced quotas after the crop year had ended. The introduction of a protein grading system in the 1971 amendments to the Canada Grain Act forced the Wheat Board Act to be altered to allow for a new method of determining initial and final payments to grain producers. At the same time the penalty clauses in Act were revised to improve the effectiveness of its administration. The glut of grain on the prairies in the latter 1960's often encouraged producers to try and improve their incomes by violating certain delivery procedures laid out in the Act. Stricter penalties were necessary therefore to ensure that the Act was properly enforced.

Studies by the Grains Group on grains and oilseeds led to a program of market expansion and development by the Federal Government who established a market development fund. The fund was to provide financial assistance on projects initiated, by the private sector, which were expected to contribute to a sustained increase in grain and oilseed sales. Projects which qualified were grouped into three main categories - feasibility projects, development projects and Canadian

ability projects. It is interesting to note that the criteria for determining whether any project received support from the fund was the increment in sales which would result from the project relative to the cost to the Government. Ten million dollars is made available annually from the fund for expansion of sales of oilseeds, grains and other agricultural products.

Accompanying this program was the establishment in Winnipeg of an internationally orientated grains institute offering courses in every aspect of the grain industry to foreign and Canadian participants. The primary reason for its establishment however, was to promote Canadian grains in domestic and international markets.

#### SUBSIDIES

By mid 1972 the changes in government policy, which had accompanied the introduction of the New Prairie Grains Policy, were being felt throughout the grain industry. Nevertheless, their immediate impact on the problem of low prices and excessive supplies appears to have been rather minimal. In the 1971-72 crop year, prices of wheat and many feed grains reached their lowest point since stocks began to accumulate after the 1966-67 crop year. As a result the government fell back on its traditional method of supporting farm incomes through subsidization. It was the immediate predicament which dictated government policy in 1972 despite the fact that previous policies had been a major factor contributing to

the excessive grain stocks on the prairies. The ad-hoc solution to the problem was the introduction of a two price system for wheat that included a subsidy to domestic producers of  $\$1.04\frac{1}{2}$  per bushel on wheat sold for domestic consumption. Domestic millers continued to pay the  $\$1.95\frac{1}{2}$  per bushel pegged at that level since August 1, 1969 while the government subsidy brought the total return to producers up to  $\$3.00$  per bushel. This is shown in Table 12 along with the crop year prices since the 1967-68 crop year. The impact of the subsidy program on stabilizing producers incomes was rather moderate however, because as mentioned previously, domestically consumed wheat averaged only 10 percent of yearly production over the period.

TABLE 12

WHEAT SUBSIDIES AND DOMESTIC PRICES

<u>Crop Year</u>	<u>Export Average Yearly Selling Price</u>	<u>Domestic Average Yearly Selling Price</u>	<u>Federal Gov't Subsidy</u>	<u>Total Domestic Return on Wheat</u>
1967/68	\$1.94	\$1.94	\$	\$1.94
1968/69	1.95	1.95		1.95
1969/70	1.81	$1.95\frac{1}{2}$		$1.95\frac{1}{2}$
1970/71	1.79	$1.95\frac{1}{2}$		$1.95\frac{1}{2}$
1971/72	1.68	$1.95\frac{1}{2}$	$1.04\frac{1}{2}$	3.00
1972/73	2.62	$1.95\frac{1}{2}$	$1.04\frac{1}{2}$	3.00

(up to July 19, 1973)

By August 1972 events began to reverse themselves. Grain prices began to recover as crop failures developed in many of the world's grain producing countries. The economies of many of the world's developed countries began to expand rapidly and with the aid of the Canadian (actually North American) currency depreciation in early 1973, grain export sales accelerated. This combination of events which resulted in a resurgence of export demand for Canadian grains soon pushed prices of wheat above the pegged domestic price of \$1.95½ per bushel. For the first time in years, producers were beginning to experience good returns. On July 19, 1973 the federal government lifted the pegged price of \$1.95½ per bushel on wheat used for domestic consumption and the producers subsidy of \$1.04½ per bushel was reduced to \$1.00 per bushel. The subsidy was no longer a producers subsidy however, in effect, it became a consumer subsidy, which offset the soaring prices of wheat. The government soon came to realize that stronger measures were necessary if the burden of high wheat prices on consumers was to be reduced.

On September 4, 1973 the Prime Minister announced a new two price system for wheat and a new subsidy program as part of the federal government's anti-inflationary policy. The pegged domestic price was established at \$3.25 for bread wheat, while that for amber durum wheat was allowed to range between \$3.25 minimum and \$5.75 maximum depending upon

world prices. In the case of bread wheat sold domestically, the government stood prepared to subsidize producers up to a maximum of \$1.75 above the pegged domestic price of \$3.25 per bushel. For example, if the export price of bread wheat fell in the range of \$3.25 to \$5.00 per bushel, the domestic price received by producers would be the pegged domestic price plus a subsidy equal to the difference between the pegged domestic and export price up to a maximum of \$1.75 per bushel. If the export price rose above \$5.00 per bushel, producers would still only receive \$5.00 per bushel on domestic sales of bread wheat and would therefore have to bear some portion of the cost of the subsidy program. In the case of amber durum wheat, domestic millers were to pay between \$3.25 to \$5.75 a bushel if the export price fell in this range. Export prices above \$5.75 per bushel but below \$7.51 per bushel would result in federal subvention on domestic sales up to a maximum of \$1.75 per bushel. If the export price rose above \$7.50 per bushel then producers would again take a loss equal to the difference between \$7.50 per bushel and the higher export price.

In announcing this new program, the government stated that it felt it had made a fair deal with grain producers. Although export prices rose above the maximum price that producers could receive in domestic sales in 1973, the minimum domestic price guarantee of \$3.25 per bushel

applied for seven years which would benefit producers in the future if the export prices of either wheat dropped below \$3.25 per bushel. The government pointed out that the current high prices in 1973 were brought about by some unusual circumstances and that domestic consumption of wheat was only a small proportion of domestic production, thus the long run benefits of a guaranteed minimum price could outweigh the short run gains which might have accrued if no upper limit and no guarantee had been made on wheat.

#### FEED GRAINS

In the area of feed grains, the immediate impact of the New Prairie Grain Policy was also rather moderate. The increased credit facilities and measures to promote export sales increased exports of feed grains in the 1969-70 crop years. Barley and oat exports in the following crop year increased as a result of reduced production of U.S. corn. The change in the Wheat Board Act to allow barley and oats to be shipped via Vancouver as well as Thunder Bay, in addition to facilitating the outward movement of these grains resulted in savings in transportation costs. The growth in rapeseed exports was no doubt improved by the introduction of lower eric acid varieties. Despite these minor successes, feed grain prices generally continued to fall throughout this period until mid 1972 when they began to improve.

In 1973 the Federal Government introduced certain measures which were designed to correct some of the major deficiencies in the pricing and selling policies of the Wheat Board. As was previously mentioned, the Wheat Board priced feed grains for domestic use on the basis of storage at Thunder Bay, to be competitive with U.S. corn. This policy was designed to encourage livestock producers in eastern Canada to buy prairie feed grains. When it was combined with the Wheat Board's monopoly on the export and interprovincial movement of feed grains, prairie producers, who could not sell their grains to the Wheat Board under the quota system, were forced to sell their grains in the province where they were produced at low off-board prices.

New measures introduced in 1973 established a pricing policy, whereby off-board prices on the prairies were directly related to the Wheat Board selling prices. In effect the Wheat Board's prices for the feed grains it sold to buyers outside the Wheat Board area were based on the going off-board prices on the prairies. In order to establish reliable off-board prices, the Wheat Board was required to work with the Canadian Livestock Feed Board in association with the Prairie Provinces to develop and monitor a system for determining actual and realistic off-board prices. It was hoped that this new policy would help to end price discrimination, between eastern and western livestock producers, and to encourage production of livestock and feed grains on a

fair and competitive basis, by making prices to buyers across Canada essentially the same.

In order to give stability to off-board prices, the Federal Agricultural Products Board had been authorized to offer to buy feed grain at any time at or above initial Wheat Board prices on an open quota system. This offer, it was claimed, amounts to a price guarantee system that protected producers' incomes so that they will not be forced by market conditions to dispose of their feed grains outside the Canadian Wheat Board at depressed prices. Producers might still choose to deliver to the Canadian Wheat Board under its quota system and would receive the usual initial price immediately plus the Wheat Board's final payment later on. As an alternative, producers could sell to the Agricultural Products Board at its price which would be the total and final price. The Agricultural Products Board price would be halfway between the Wheat Board's initial price and its expected final price. Thus producers did not need to sell at depressed off-board prices below the Agricultural Products Board price because the Agricultural Products Board could buy all the feed a producer wants to sell at this price.

The new Wheat Board policy of pricing feed grains for buyers outside the Wheat Board area on the basis of the going off-board price in the prairies would bring to an end an era of Wheat Board policy which helped to keep off-board prices low on the prairies. While this would no doubt bene-



fit feed grain producers on the prairies, the same could not be said of livestock producers. During the period of excess supplies of feed grains in the late 1960's and throughout 1970 and 1971, the Wheat Board's policies which helped to depress off-board prices enhanced the comparative advantage that prairie livestock producers enjoyed over their counterparts in other areas of Canada. The livestock industry on the prairies began to expand on the basis of cheap feed grains. The new policy, it was hoped, would make feed grain prices across the country essentially the same as the feed freight assistance continued to reduce transportation costs to regions outside the Wheat Board area.

In the past, off-board prices had been more than competitive with international grain prices. This was mainly due to the Wheat Board's monopoly powers which prevented the movement of grains out of the prairie regions at competitive prices. Now that Wheat Board selling prices were tied to off-board prices, it would tend to make them more competitive. For instance, if international prices fell, Wheat Board quotas would be reduced if its selling prices were too high. This increased the supply of off-board grains depressing their prices. If Wheat Board selling prices were tied to off-board prices, they too would decline and tended to bring supply into balance with demand at a market clearing place.

One of the problems with this policy however, was that it must be extremely flexible. Since initial prices were usually announced prior to the beginning of a crop

year, they must have relied on accurate forecasts of feed grain demand and provide this market intelligence to producers in advance of the crop year. Quotas must reflect these forecasts so that initial prices were competitive. If they were not, the Agricultural Products Board support price might be set too high and instead of selling the grain to buyers outside the Wheat Board area, excessive stocks would have to be accumulated by the Agricultural Products Board. It may be recalled that the Agricultural Products Board price was midway between the Wheat Board's initial and expected final selling price.

The provincial boundary restrictions within the prairie region on feed grain movements were also removed in 1973. This provides prairie livestock producers access to supplies right across the prairies while giving prairie grain producers a greater choice of buyers. The removal of the barriers to interprovincial movement of off-board grains on the Prairies gave both feed grain and livestock producers greater opportunities to sell and buy off-board grains. Livestock producers living near provincial boundaries saved on transportation costs and had a greater market to choose from. Feed grain producers also benefited from the expanded market, although because of the guaranteed support prices established by the Agricultural Products Board, they might not have to look as hard for buyers.

PART III

PROPOSALS FOR A NEW NATIONAL FEED GRAINS POLICY

## PROPOSALS FOR A NEW NATIONAL FEED GRAINS POLICY

Accompanying the changes in feed grains policies which were introduced in 1973, were a number of proposals for a new national feed grains policy which was scheduled to begin implementation in the 1974-75 crop year. The proposals were announced in 1973 so that further discussions between the federal government and the various bodies, organizations and institutions with an interest in the grain trade could take place and many of the technical details would be worked out satisfactorily. The policy proposals themselves called for entirely new approaches to grain problems and were designed to achieve three main objectives. The first objective was to establish a common base price for feed grain purchasers across Canada; the second, to alleviate depressed feed grain prices for producers; and thirdly to encourage the growth of livestock and feed grains according to natural advantages. The proposals designed to achieve these objectives are considered below.

### OPEN MARKET APPROACH TO DOMESTIC FEED GRAIN MARKETING

Among the proposed changes in feed grain policies was one which would allow buyers and sellers of feed grains in Canada the opportunity to purchase or sell feed grains anywhere in Canada provided that the feed was for consumption by domestic livestock. The significance of this proposal was that it might promote all three government objectives at the same

time. This proposal would officially bring to an end, an era of Wheat Board monopoly control over interprovincial movement of feed grains that in the past forced eastern livestock producers to pay higher prices for feed than their counterparts on the prairies who benefited from depressed off-board prices. It would also tend to support off-board prices on the prairies by providing more buyers and thus alleviate the depressed prices received by prairie feed grains producers in the past. Moreover, by opening up the market, it would provide increased competition especially in those regions in Canada which do not have the natural advantages to compete effectively.

To facilitate this new program the Canadian Livestock Feed Board would be responsible for supervising the licencing of feed grain traders and ensure that the trade meets the requirements of a unified market. To undertake this responsibility, the Canadian Livestock Feed Board would monitor the domestic market and provide regular and up-to-date information to prairie grain producers and users everywhere about prices and domestic market requirements.

#### PROPOSED CHANGES IN CASH ADVANCES

Another proposed change was directed mainly at the second objective of alleviating depressed prices. Under this proposal the \$6,000 limit on cash advances presently incorporated in the Prairie Grain Advance Payments Act would be increased and would provide relief to prairie grain pro-

ducers when the grain transportation and handling system was congested and they are unable to deliver grains to the Wheat Board. The program would also be extended to include other grains which are not currently covered by advance payments. Both of these measures would end the discrimination between wheat and feed grains which has been a deficiency in the Act in the past. In addition the increase in the \$6,000 limit would also benefit the smaller more efficient producers as well as the very large producer.

#### A PERMANENT STORAGE PROGRAM

A permanent roll-over reserve stock of feed grains to be maintained at Thunder Bay and other possible locations was another government proposal which would ensure that the domestic market has guaranteed adequate supplies of feed grains. The reserve stock would be administered by the Canadian Livestock Feed Board as part of its responsibility to establish a unified market for domestic feed grains. Based on its monitoring activities, the Canadian Livestock Feed Board would determine the combination of grains to be stored and the Wheat Board would have the responsibility of allocating these grains. The stocks themselves are to be used in the event that Canadian production does not generate sufficient supplies. The stocks are to be flexible and may be drawn down to a minimum when demand is excessive but the release of the minimum buffer stocks by the Canadian Livestock Feed Board would depend on specific circumstances and be in accordance with specific procedures which would be

drawn up.

These stocks are not intended to influence the proper functioning of the market and a supervisor from the Winnipeg Commodity Exchange would be appointed to ensure that these stocks do not interfere with the future market. It may be recalled that when the Canadian Wheat Board managed stocks at Thunder Bay in the past, its activities tended to disrupt the proper functioning of the future market.

The storage policy was not designed to replace the Temporary Wheat Reserve Act which expired at the beginning of the 1973/74 crop year and as such was not a plan to store excess production. In addition, the program recognizes the purchaser's obligation to pay part of the storage costs.

#### PRICE GUARANTEES

Another proposal which might be unveiled in one form or another in the new National Grains Policy would permanently guarantee initial prices and call for much broader and explicit forms of guarantees to stabilize farm incomes. In 1971, a stabilization plan, known as the Prairie Grain Stabilization Bill, was introduced in the House of Commons but never enacted. Discussions between the federal government, various producer organizations and provincial

governments in 1973 and 1974 indicated that a program providing some kind of income stabilization might be incorporated in the new Prairie Grains Policy. The above mentioned Bill would have provided payments to grain producers from a fund whenever producers' receipts from the six major grains fell below their five year average. Contribution to this fund would have been in the proportion of two to one, with the federal government contributing two dollars for every one dollar contributed by producers.

Whether this type of stabilization program would be introduced or not is an open question however. Recent policy changes indicate that stabilized prices may be the goal of the new legislation. The Agricultural Products Board Supported Program on off-board prices may indicate the direction of government policy. Other measures to strengthen off-board prices also favour the price stabilization approach.

#### MODIFICATION OF FEED FREIGHT ASSISTANCE AND FREIGHT RATES

As part of a long term proposal, which has been recently under discussion, one of the long term objectives of the new National Grain Policy is to modify the feed freight assistance structure and eventually ensure equity between freight rates on grain and animals. It may be recalled that the feed freight assistance structure was originally introduced during the Second World War as a result of a government decision to encourage the production of meat for Britain



in Eastern Canada. Since then, a large and thriving livestock industry was developed in Eastern Canada and later in British Columbia, based on subsidized western feed grains. Both eastern livestock producers and western grain producers benefited from this program in the past, however, as was mentioned previously, this program artificially supported an industry in Eastern Canada which, if left to natural advantages, would not have developed to the same extent. It was also argued previously that compared with most regions in Eastern Canada and British Columbia, the prairie provinces had a comparative advantage in both livestock and feed grain production. Thus, if the western provinces were allowed to specialize in these products relative input costs would have been lower in the prairies. By changing relative input costs through artificial means, the result had been to increase total costs of production. To the extent that government feed freight assistance policy encouraged shifts in production, society as a whole suffered because of increased total costs.

The government has been hesitant to eliminate the feed freight assistance program after it caught on because it would involve a structural change in the Canadian economy with severe social and economic consequences. A significant redistribution of wealth would have occurred between regions as areas which did not have the natural advantages were eventually eliminated from these industries.

If such is the case, one might wonder why the government has now decided to modify its policy. One of the reasons has to do with changes in other government policies in recent years that tended to minimize the social and economic disallocations which would have occurred in the past. For instance, the changes in Wheat Board pricing policy in 1973 and the other measures which raised off-board prices on the prairies tended to reduce the comparative advantage in livestock production enjoyed by prairie producers. Moreover, some regions in Eastern Canada were becoming increasingly self sufficient in feed grain production. In the past decade, feed grain production in Ontario expanded rapidly, especially soybean and corn production. Apparent disappearance has been keeping pace with the growth in local production in Ontario and as a result, while the volume of feed freight assistance exhibited no significant trend, the share of total disappearance composed of feed freight assisted shipments tended to decline.

Under the proposed modification in feed freight assistance, small reductions are proposed initially to be made in Ontario where it will not have a significant impact. Later, reductions would be extended to other eastern provinces and British Columbia, where feed freight assisted shipments of feed grains, as a proportion of total disappearance has been on an upward trend. To mitigate the effects of feed freight assistance reductions, the federal government would consult

with the provincial authorities to identify programs which might be implemented to stimulate feed grain production in the affected provinces. Funds released through the reductions in feed freight assistance can be used to help finance such programs. The eventual outcome of this program however, is to ensure the development of feed grain and livestock production according to natural advantages. Areas in Canada which lack the natural advantages and do not have the potential for development of either livestock or feed grain industries will eventually cease to produce these commodities.

#### THE ROLE OF THE CANADIAN WHEAT BOARD

The powers and responsibilities of the Canadian Wheat Board appear to have been reduced somewhat under the government's new policy proposals. For instance, the government indicated that control over the importation of wheat, oats and barley would be transferred from the Wheat Board Act to the Import/Export Permits Act which is administered by the Department of Industry, Trade and Commerce. The reasons for this shift of responsibility are not entirely clear but some reasonable speculation on the options this move presents to the government can be concluded. One option concerns the government's concept of an open market for feed grains in Canada. A truly open market would allow buyers access to all sources of supply including imports. If imports of feed grains are granted duty-free entry, they

would provide serious competition for western feed grains and keep domestic prices from getting too far out of line with world prices. This option would be constrained by political considerations. If the Wheat Board was supplying grains to the domestic market in abundant supplies, the government might be pressured to limit imports. Another option available to the government therefore, would be to issue import licences when for any reason domestic supplies were not forthcoming in quantities required to meet domestic needs. In normal periods, however, imports could be restricted. The second option was perhaps the most likely, but did not preclude the first.

The Wheat Board's monopoly power over domestic sales of feed grains would be seriously reduced by the introduction of the open market system. The Board would not be able to maintain prices to domestic buyers of feed grains outside the prairies at levels which are substantially out-of-line with off-board prices as was often the case in previous years. The open market concept envisions that feed grain purchasers, subject to the supervision of the Canadian Livestock Feed Board, does not need to purchase directly from the Wheat Board as in the past. The Wheat Board still controls the flow of grain out of the prairies, but it has to play a much more passive role which would be mainly to

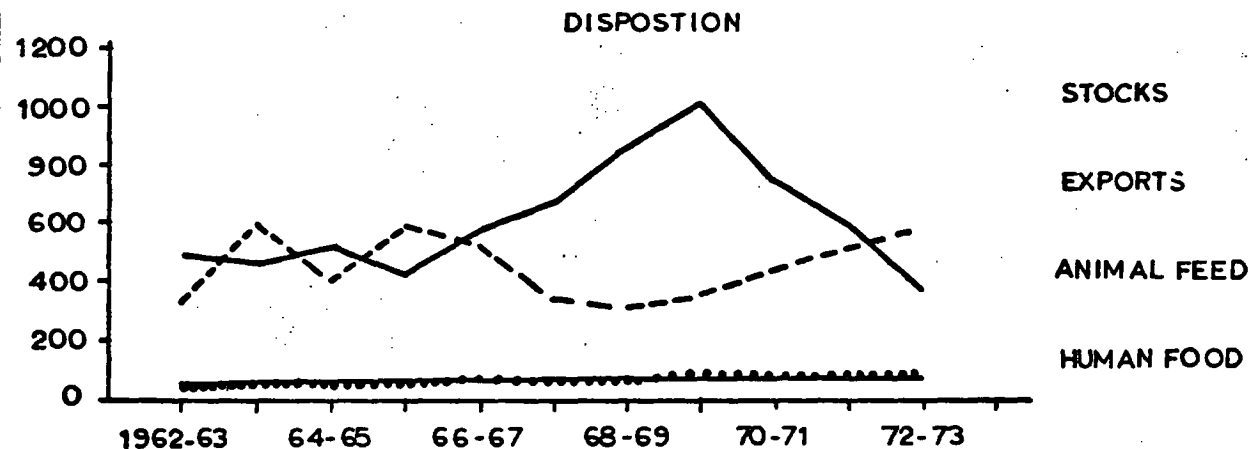
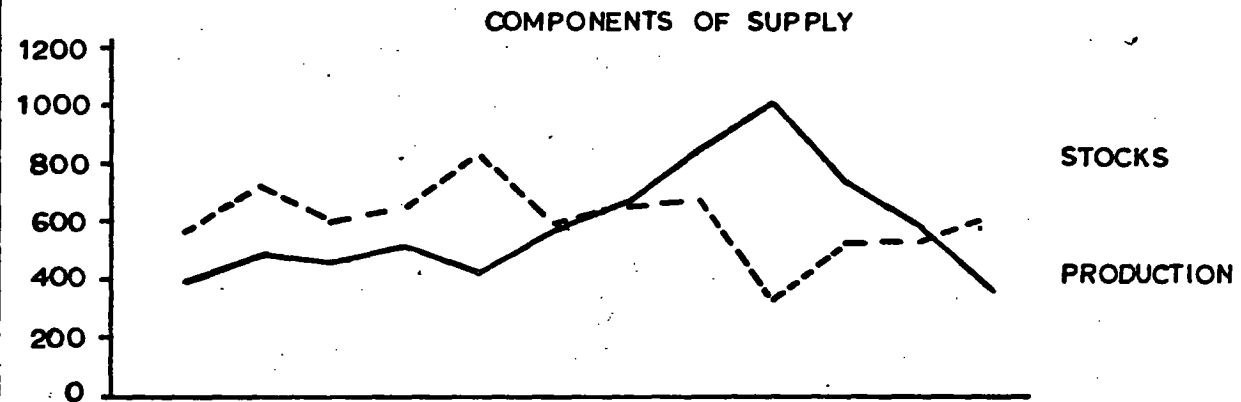
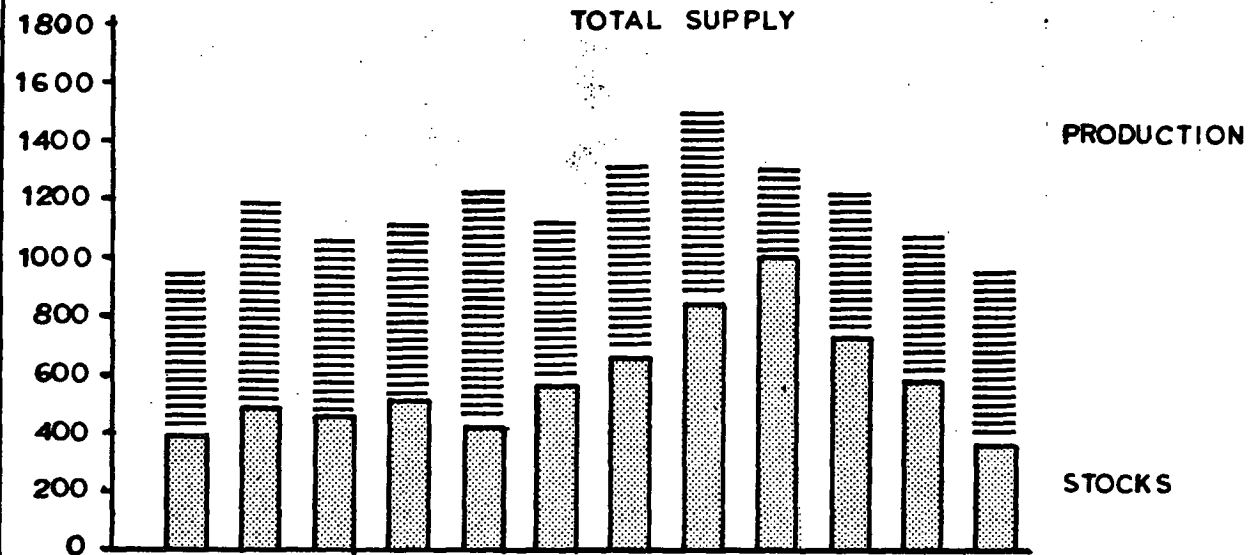
ensure the efficient and orderly marketing of grains. It would be necessary therefore for customers to notify the Board of the kind, grade and origin of the grain purchased, but they do not necessarily have to buy from the Board. Transfer of the Wheat Board's control over imports of feed grains to the federal government and the establishment of buffer stocks by the Livestock Feed Board would place checks on the activities of the Wheat Board and would ensure that its role remains passive. The Wheat Board shall not be able to manipulate prices by limiting supplies.

Purchasers of grain for non-feed uses would remain under the Wheat Board control as will the Board's control over the export market. The Canadian Livestock Feed Board's monitoring activities shall provide information on domestic requirements and stocks and the Wheat Board's export plans would be based on this information and its own estimates of domestic non-feed use requirements. This would allow the Wheat Board to give better information about total quotas and prices and might encourage producers to deliver their grain to the Board.

Figure 4

# WHEAT - SUPPLY AND DISPOSITION - CANADA 1962-63 TO 1973-74

MILLION BUSHELS

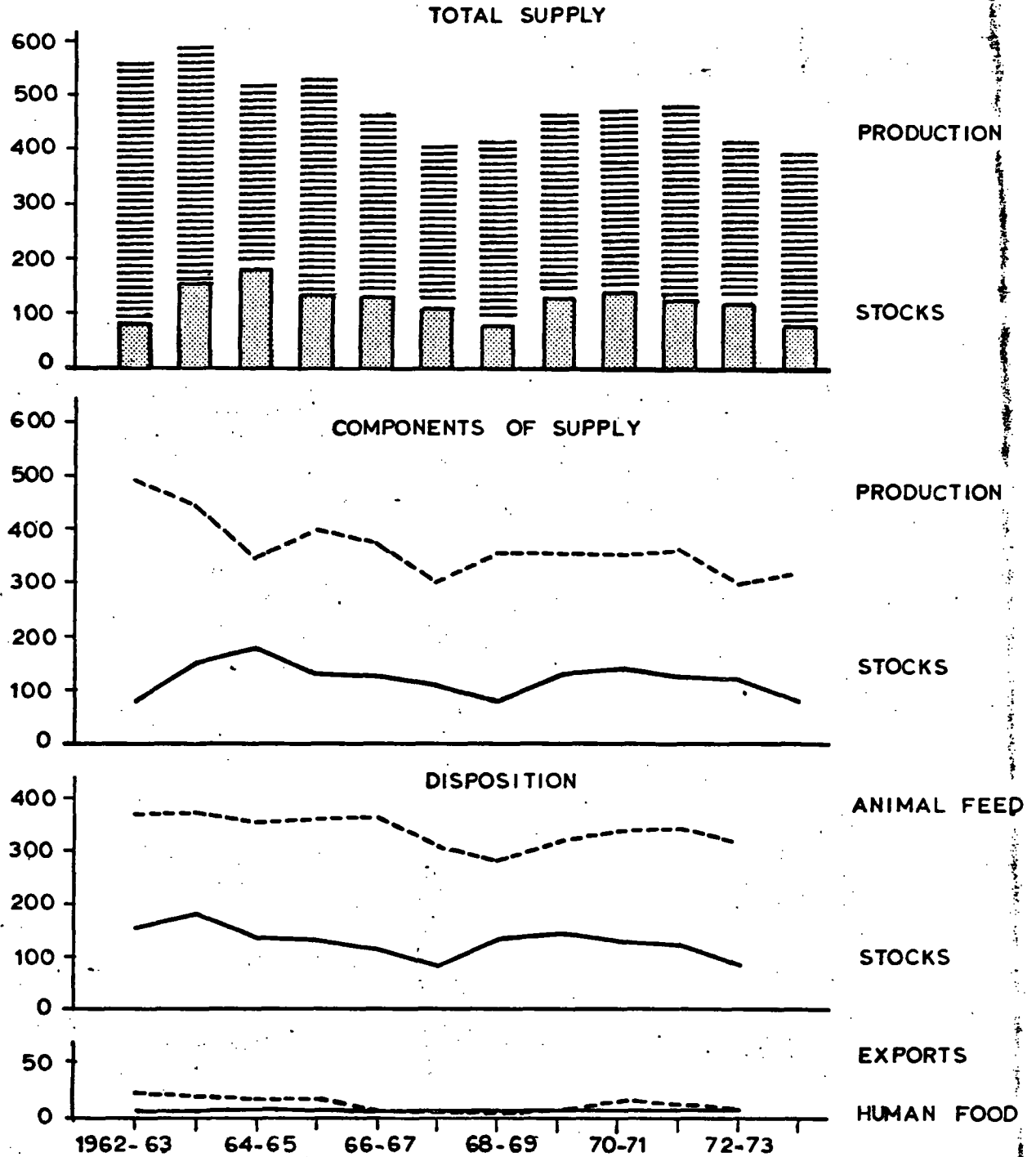


SOURCE: Economics Branch, Marketing & Trade Division, Situation & Outlook, '74  
Agriculture Canada, 1974

Figure 5

# OATS-SUPPLY AND DISPOSITION - CANADA 1962-63 TO 1973-74

MILLION BUSHELS

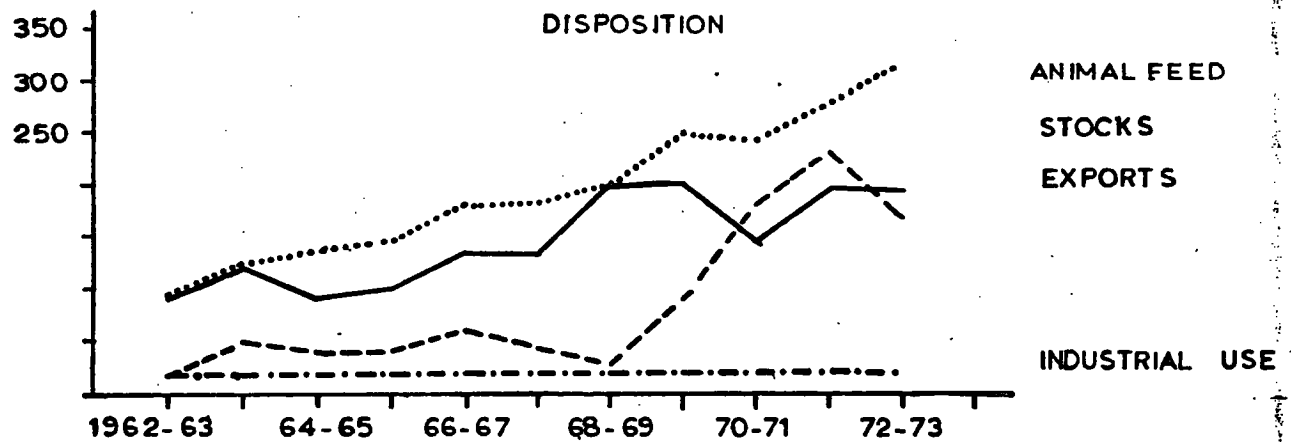
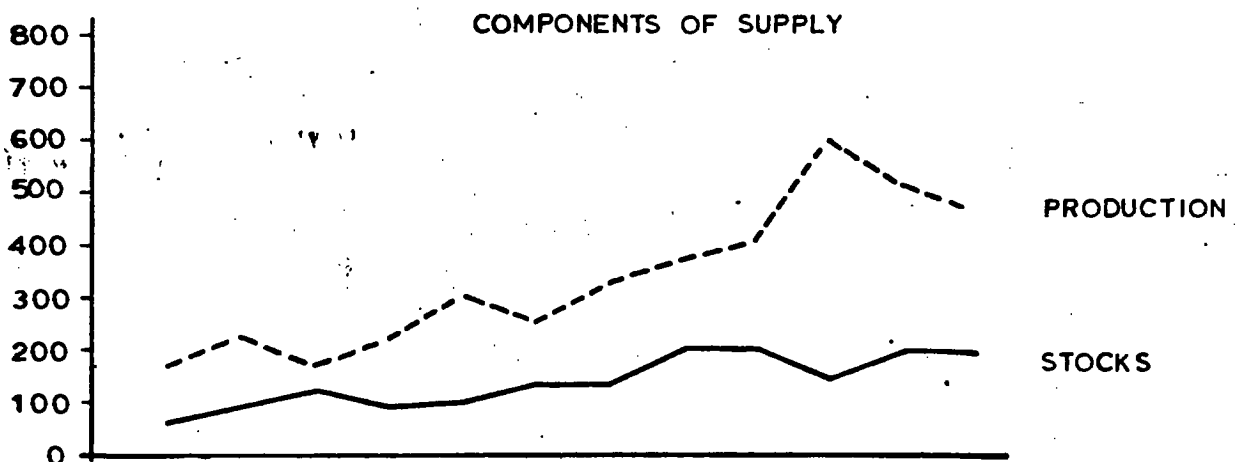
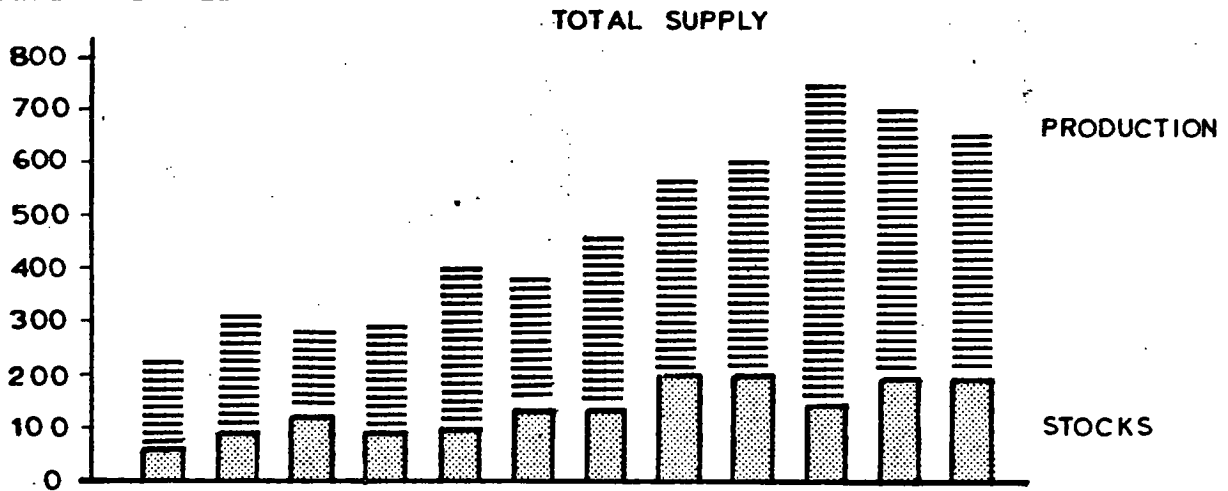


SOURCE: Economics Branch, Situation & Outlook '74 Agriculture  
Canada. Ottawa, 1974

Figure 6

# BARLEY - SUPPLY AND DISPOSITION - CANADA 1962-63 TO 1973-74

MILLION BUSHEL



SOURCE: Economics Branch, Situation & Outlook '74 Agriculture Canada.  
Ottawa, 1974



1  
APPENDICES

## APPENDIX A

### FEED FREIGHT ASSISTANCE POLICY IN CANADA MODIFICATIONS BETWEEN 1941-64

Various short-run objectives and conditions led to the acceptance of various changes in the government policies relating to feed freights for moving grains from the Prairie provinces to Eastern Canada and British Columbia. These changes can be recorded as follows:<sup>1</sup>

<u>Date</u>	<u>Particulars</u>
September 25, 1941	With the exception of the cost-sharing plan (January 1941 and accepted by Ontario), feed freight assistance commenced on September 25, 1941 (P.C. 7523), authorizing payments of 1/3 of the regular freight charges on carload lots or steamship cargoes of western grain (whole or ground, wheat bran, wheat shorts, middlings, screenings and mill feeds to any province in Eastern Canada and to British Columbia.
October 20, 1941	Federal government replaced P.C. 7523 by P.C. 8067 and initiated a system of paying assistance on a more readily calculated basis (rather than 1/3 basis). This was the beginning of the Feed Freight Assistance Policy.

<sup>1</sup> T.C. Kerr, An Economic Analysis of the Feed Freight Assistance Policy, AERCC, Ottawa, 1966 p.p. 6-12 (extracted information).

April 1, 1947

The federal government continued to make payments for practically all freight costs involved in moving grains to Eastern Canada and British Columbia. On April 1, 1947, new regulations were issued for the continuation of this program but at different rates (P.C. 1240).

April 8, 1948

P.C. 1240 was replaced by P.C. 1515

Since its start in 1941, the Feed Freight Assistance Policy was modified according to the various changes in the objectives of government policy. During the wartime period when Canadian agriculture was mobilized in the interest of attaining certain export and domestic food requirements, the policy was instrumental in achieving the short-run objectives of the nation. By 1949, changes in the policy began to reflect government concern about its effect on the use of transportation facilities.

November 17, 1949

The assistance rate for Eastern Canada on all rail shipments and water shipments was increased to \$6.00 per ton up to Montreal freight zone and to \$6.00 per ton plus the remainder of the actual freight to destinations beyond Montreal freight rate zone. In 1949, feed freight assistance was extended to cover Newfoundland. (rate was \$16.00 to \$22.00 per ton)

December 6, 1951

Amendments in the regulations of P.C. 5434 were exercised pertaining to British Columbia.

February 1, 1955

P.C. 1955-138, January 26, 1955 revoked the regulations established by P.C. 5434 and associated amendments and established a new set of regulations. These regulations were of particular interest as they froze the rate of assistance. The freeze in rates remained in force until March 1, 1957. The rates of assistance authorized under these regulations were to destinations in Northern Ontario - Actual car lot rail freight charges not exceeding \$4.50 per ton; to other destinations in Ontario, \$4.50 per ton; to that area of Quebec with Montreal freight rate zone, \$4.50 per ton; to areas beyond Montreal, \$4.50 plus the remainder of the through car lot rail freight rate to destination (for less than 80 cents per hundredweight) and \$6.00 per ton (for more than 80 cents per hundredweight). For British Columbia, like Eastern Canada, the rates were frozen at \$5.00 per ton, less than the car lot shortline rail freight charges from Calgary/Edmonton or point of origin in Alberta (whichever had the lowest rates to destination in British Columbia.)

March 1, 1957

The rates of assistance increased by 50 cents per ton (P.C. 1957-288) for both Eastern Canada and British Columbia. Calgary rates were no longer used as a basis for the subsidy. However, the split on destinations beyond the Montreal freight rate zone was raised to 80 cents/cwt.

November 27, 1958

Another change in subsidy rates was introduced by P.C. 1958-1628 revoking P.C. 1955-138. Rates fixed were: Eastern Canada was on the split on through carlot rail rates for destinations beyond Montreal freight free rate zone (destinations with rates below \$1.04/cwt) subsidy fixed at \$5.00 per ton plus the remainder of the through car lot freight rate in excess of the rate of the Montreal freight rate zone. For points with higher than \$1.04/cwt through carlot freight rate, the subsidy fixed at \$7.50 per ton plus the remainder of the through carlot rail freight rate. For British Columbia, the new regulation changed the balance of cost from \$5.50 per ton to \$5.40 and re-established Calgary as a basing point for the subsidy rates.

July 30, 1959 P.C. 1959-984 amended the regulations set up under P.C. 1958-1628.

December 8, 1960 Some further amendments were made regarding the subsidy rates beyond Montreal (rates reduced to \$5.00 per ton to Trois Rivières which was declared as a point of origin for local carlot-freight rates.

July 1961 Regulations were included, describing detailed rate changes affecting Northern Ontario and Northern Quebec (basic subsidy increased to \$7.00 per ton.

It was in 1963 that a number of significant changes were made in the government's feed grain policy. These pertained to the payment of storage charges on wheat, oats and barley grown in Western Canada and stored in licensed elevators in Eastern Canada. The main objective of feed grains in Eastern Canada prior to the close of navigation. Further major changes in the feed grain freight assistance policy came in 1964.

September 14, 1964 Truck shipments within Eastern Canada became eligible for feed freight assistance payments under qualifications.

This addition was made to correct for inequities in the balance of cost to various destinations which had resulted from the old method of payment. The specified objective of the new policy was to narrow the spread of cost to approximately \$2.60 per ton in Eastern Canada and eventually, because of truck competition,

it was felt that this would be reduced to \$1.60 per ton. Prior to new policy, the spread of cost had been as high as \$8.00, ranging from an excess subsidy of \$1.80 to a balance of cost of up to \$6.20 per ton.

Since the fall of 1964, further amendments have been made to freight assistance and storage policies. These amendments were introduced based on the "balance of cost" concept, i.e. narrowing the balance of cost (either plus or minus) to all destinations in Eastern Canada.

APPENDIX B

ESTIMATED PRODUCTION, FARM PRICE AND  
VALUE OF WHEAT, PRAIRIE PROVINCES, 1930-72

Years	<u>PRODUCTION</u>		<u>AVERAGE FARM PRICE</u>		<u>TOTAL VALUE</u>	
	Bushel x 10 <sup>6</sup> <sup>1</sup>	Index	\$/Bushel	Index	\$ x 10 <sup>6</sup>	Index
1930-31	397.3	100.0	0.47	100.0	187.3	100.0
1935-36	264.1	66.5	0.60	127.6	159.7	85.3
1940-41	513.1	129.3	0.57	121.3	292.6	156.2
1945-56	294.6	74.1	1.64	348.9	482.5	257.7
1950-51	439.0	110.5	1.52	323.4	668.8	357.1
1951-52	530.0	133.4	1.53	325.5	808.8	431.9
1952-53	678.0	170.6	1.58	336.2	1,069.9	571.3
1953-54	604.0	152.0	1.32	280.8	799.8	427.1
1954-55	305.0	76.8	1.23	261.7	376.2	200.9
1955-56	497.0	125.1	1.37	291.5	679.4	362.8
1956-57	551.0	138.7	1.24	263.8	682.4	364.4
1957-58	371.0	93.4	1.28	272.3	474.5	253.4
1958-59	372.0	93.6	1.32	280.8	492.5	262.9
1959-60	430.0	108.2	1.31	278.7	563.3	300.8
1960-61	498.0	125.3	1.57	334.0	783.6	418.4
1961-62	260.0	65.4	1.74	370.2	452.7	241.7
1962-63	546.0	137.4	1.66	353.1	908.6	485.1
1963-64	703.0	176.9	1.74	370.2	1,224.8	654.0
1964-65	578.0	145.5	1.59	338.3	920.1	491.3
1965-66	632.0	159.1	1.67	355.3	1,061.3	566.7
1966-67	824.0	207.4	1.76	374.5	1,457.1	778.1
1967-68	629.0	158.3	1.58	336.2	938.9	501.4
1968-69	665.0	167.4	1.33	283.0	884.5	472.2
1969-70	652.0	164.1	1.26	268.1	821.8	438.6
1970-71 <sup>2</sup>	312.5	78.6	1.42	302.1	445.0	237.6
1971-72	510.0	128.3	1.34	285.1	685.4	365.9

- 1) Conversion rate for wheat, 1 bushel = 60 lbs.
- 2) The sharp reduction in the total production from 652.0 million bushels in 1969-70 to 312.5 million bushels in 1970-71 is attributable to LIFT program of the government.

Source: Statistics Canada, Agricultural Division, Ottawa.



# APPENDIX C

## ESTIMATED PRODUCTION, FARM PRICE & VALUE OF OATS, PRAIRIE PROVINCES 1930-72

Years	PRODUCTION		AVERAGE FARM PRICE		TOTAL VALUE	
	Bushel x 10 <sup>6</sup> <sup>1</sup>	Index	\$/Bushel	Index	\$ x 10 <sup>6</sup>	Index
1930-31	254.0	100.0	0.16	100.0	41.1	100.0
1935-36	244.8	96.4	0.17	106.3	41.4	100.7
1940-41	229.0	90.1	0.21	131.2	47.1	114.4
1945-56	249.3	98.1	0.52	312.5	124.4	302.5
1950-51	255.2	100.5	0.70	437.5	178.0	432.9
1951-52	340.0	133.8	0.69	431.2	232.9	566.3
1952-53	346.0	136.2	0.60	375.0	206.1	501.0
1953-54	276.0	108.6	0.56	350.0	154.5	375.6
1954-55	196.0	77.2	0.60	375.0	117.6	285.8
1955-56	290.0	114.2	0.62	387.5	178.4	433.7
1956-57	343.0	135.0	0.50	312.5	170.7	414.9
1957-58	171.0	67.3	0.51	318.8	86.5	210.2
1958-59	186.0	73.2	0.55	343.8	102.2	248.5
1959-60	191.0	75.2	0.63	393.8	120.3	292.4
1960-61	244.0	96.1	0.60	375.0	146.6	356.3
1961-62	129.0	50.8	0.64	400.0	82.3	200.1
1962-63	322.0	126.8	0.59	368.7	171.2	464.8
1963-64	304.0	119.7	0.54	337.5	114.1	277.3
1964-65	206.0	81.1	0.62	387.5	128.8	313.3
1965-66	272.0	107.1	0.69	431.2	188.1	457.3
1966-67	253.0	99.6	0.64	462.5	277.8	675.4
1967-68	249.0	98.0	0.66	468.8	228.4	555.3
1968-69	278.0	109.4	0.51	318.8	126.6	308.0
1969-70	268.0	105.5	0.53	331.3	142.7	347.2
1970-71	277.0	109.1	0.55	343.8	151.3	368.1
1971-72	288.0	113.4	0.52	325.0	148.5	361.3

1) Conversion rate for oats, 1 bushel = 34 lbs.

Source: Statistics Canada, Agricultural Division, Ottawa.

# APPENDIX D

## ESTIMATED PRODUCTION, FARM PRICE AND VALUE OF BARLEY, PRAIRIE PROVINCES, 1930-72

Years	PRODUCTION		AVERAGE FARM PRICE		TOTAL VALUE	
	Bushel x 10 <sup>6</sup> <sup>1</sup>	Index	\$/Bushel	Index	\$ x 10 <sup>6</sup>	Index
1930-31	109.5	100.0	0.15	100.0	16.0	100.0
1935-36	62.6	57.2	0.24	160.0	15.1	94.4
1940-41	83.0	75.8	0.27	180.0	22.7	141.8
1945-56	136.6	124.8	0.66	440.0	89.1	561.3
1950-51	157.0	143.4	1.11	740.0	174.9	1,091.8
1951-52	234.0	213.7	1.09	726.7	255.5	1,595.0
1952-53	281.0	256.6	1.05	700.0	294.2	1,836.5
1953-54	251.0	229.2	0.85	566.7	213.2	1,330.9
1954-55	167.0	152.5	0.88	586.7	146.9	917.4
1955-56	244.0	222.8	0.87	580.0	212.0	1,323.7
1956-57	262.0	239.3	0.78	520.0	204.5	1,276.4
1957-58	208.0	190.9	0.76	506.7	158.6	989.8
1958-59	231.0	211.0	0.76	506.7	175.9	1,098.0
1959-60	209.0	190.9	0.74	493.0	154.2	962.7
1960-61	187.0	170.8	0.80	533.0	148.9	929.7
1961-62	106.0	96.8	1.06	706.7	112.1	699.0
1962-63	158.0	144.3	0.94	626.7	147.9	923.7
1963-64	213.0	194.5	0.94	626.7	200.3	1,250.3
1964-65	157.0	143.4	1.00	666.7	156.3	976.0
1965-66	202.0	184.5	1.03	686.7	208.0	1,298.0
1966-67	279.0	254.3	1.05	700.0	316.0	1,972.0
1967-68	301.0	274.9	0.91	606.7	227.4	1,419.0
1968-69	355.0	324.2	0.80	533.3	240.5	1,503.1
1969-70	347.0	316.9	0.64	426.7	233.5	1,459.4
1970-71	382.0	348.8	0.73	486.7	283.3	1,770.6
1971-72	570.0	520.5	0.67	446.7	382.2	2,388.8

1) Conversion rate for Barley, 1 bushel = 48 lbs.

Source: Statistics Canada, Agricultural Division, Ottawa.

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