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THE WHEAT MARKETING SITUATION

An Address by the Minister of Trade and Commerce,
Mr. C.D. Howe, to the Saskatchewan Wheat Pool in
Regina, Saskatchewan November 5, 1955.

First, I would like to thank the president and directors and officers of the Saskatchewan Wheat Pool for my invitation to be with you today. After having been subjected to a heavier than usual barrage of uninformed criticism over the handling of our wheat marketing situation, it is a relief to be able to discuss the problem with a group of men who have an accurate knowledge of the present situation, coupled with a background of experience with marketing problems extending over many years.

Fortunately for Canada, and for grain producers, the problem we will discuss today is one of over-abundance rather than one of scarcity. During the early part of last May, I arrived in Vancouver, after a six weeks' visit to Australia and New Zealand. During a television interview at the airport, I was asked if I was aware that the prairies were flooded, and that there would be no grain crop this year. I answered the question by saying that I had never known of a crop failure in the month of May, and went on to say that an over-supply of water in early May is likely to mean a good crop, rather than no crop. I mention this only to remind you that had newspaper predictions of that day been a true forecast of coming events, we would be meeting here today to discuss problems much more serious and more difficult of solution than the one now before us.

Nature has performed magnificently. You have harvested bumper crops of all grains, and the quality is high. For the most part, the grain is under cover and safely warehoused. The problem before us is solely that of converting this grain into dollars in the hands of the producer. I suggest that we have faced more serious and more complicated problems, within the experience of all of us.

Within the next few weeks I shall speak to other gatherings in Western Canada about the grain situation. But I felt it only right and proper to make my keynote address to the annual meeting of the Saskatchewan Wheat Pool, one of the world's great co-operative organizations, located in the centre of Canada's wheat economy.

Here at this annual meeting of the Saskatchewan Pool, I feel that I am among friends. I am among producers who have consistently supported the principles of Wheat Board marketing of western grain crops. This support has been invaluable to me and to the Government in recent years. It has enabled me, as Minister of Trade and Commerce, and the Government as a whole,

to pursue constructive policies, in the knowledge that the main body of farm opinion was solidly behind us.

The grain marketing policies of the Canadian Government have enjoyed a remarkable degree of success in post-war years. Indeed, these policies and the determination with which they have been pursued have been the envy of most of our competitors on world wheat markets.

These policies have enabled Canada to sell good quantities of grain at satisfactory prices. They have built up good-will in overseas markets. They have established Canada as a reliable supplier of good quality grain. They have given the buyer confidence that Canada will not take advantage of temporary scarcities by exacting the highest prices that the market will bear. They have given the buyer confidence that, in conditions of temporary over-supply, Canada will not suddenly panic, and attempt to dump her holdings on to a reluctant market.

These policies have not always been accepted without question. I can recall and you will recall many times when the Wheat Board system of marketing and the way in which that system was being administered were under violent attack, as in fact they are today by voices that are familiar to us all. In the knowledge that an overwhelming majority of the producers themselves believed in the present system of marketing, the Government stood firm. I believe I speak for all present in this room when I say that the western producer is better off financially today and the Canadian economy is stronger because we have had the courage of our convictions.

Today the western producer, the Wheat Board and the Government are faced with greater difficulties in marketing grain than at any time since the end of the war. Why is this so? Is it because of Canadian marketing policies?

Those who have opposed and continue to oppose the present system of Wheat Board marketing can be expected to answer "yes" to this question. They will urge a return to the pre-war situation. If anyone here is tempted by this line of argument, I would suggest that he look up the pre-war record, and refresh his memory of what happened when marketing difficulties arose in those years. During a similar period of unsold surpluses in the early 1930's, wheat prices fell to the lowest levels ever recorded at Winnipeg, without any significant effect upon the volume of sales of Canadian wheat.

In my view, the present marketing difficulties are not to be traced to the present Wheat Board system. On the contrary, history will record, I believe, that had it not been for the existence of the Canadian Wheat Board, with firm control over supplies of western grain, the situation today would have been much worse; might indeed have been similar to the situation that existed in the early 1930's.

What then are the reasons for existing marketing difficulties? The first, and perhaps most important, is the fact that Western Canada has produced four very big crops in five years. This is by no means a misfortune, but it has inevitably led to serious congestion in elevators, and slow deliveries by producers. The world was simply not in a position to absorb in five years the record quantities of wheat produced by western Canadian farmers in that period. Some had to be carried over, both in elevators and on farms.

Let it not be overlooked, however, that during the four years which ended on July 31st last, western producers were able to deliver to the Canadian Wheat Board considerably more than the equivalent of four average crops.

Look at the figures. In the crop year 1951-52 western producers delivered to the Board 455 million bushels of wheat and 737 million bushels of all grains, in 1952-53, 536 million bushels of wheat and 844 million bushels of all grains, in 1953-54, 397 million bushels of wheat and 608 million bushels of all grains and in the crop year which ended on July 31, 1955, 320 million bushels of wheat and 524 million bushels of all grains. This is an average of 422 million bushels of wheat per year marketed by producers over the whole four-year period. If to these deliveries are added disappearance on farms, it will be seen that western farmers have been able to dispose of the equivalent of a Prairie crop of 495 million bushels of wheat per year, which, as you know, is well above the long-term average output.

Even last year, which was in some respects disappointing, producers were able to deliver not only as much grain as was produced last year, but were also able to reduce farm stocks by 100 million bushels of wheat, and 100 million bushels of other grains. In other words, if there had been an average crop this year, rather than another "whopper", the situation which now confronts us would have been very different indeed. On the whole, however, I still find it difficult to believe that a good crop is a calamity in western Canada.

All the grain produced this year cannot be delivered during this crop year. But I am hopeful that producers will be able to deliver before the end of the current crop year the equivalent of a better than average crop. The remainder will have to be stored on farms until it is needed, providing a most valuable reserve against the time when below-average crops are produced here or elsewhere.

The second main reason for current marketing difficulties is the surplus disposal activities of the United States. Canada and the United States are very good neighbours. I doubt whether history records any other instance where two peoples have lived side by side in greater harmony. I do not think that either country would embark upon policies with the deliberate intention of harming the other. Many of those present will remember the speeches made by Mr. Ezra Benson, United States Secretary of Agriculture, in Western Canada just a few months ago, when he gave assurances that the United States would pursue fair practices in disposing of surpluses.

Let me outline, how, in fact, the United States does attempt to dispose of its wheats on world markets. First, it pays a straight subsidy on all exports, in order to bridge the difference between prices in the United States and world prices. This subsidy varies from time to time, depending upon prices at home and prices abroad. Secondly, the United States sells wheat for payment in the currency of the buyer. The proceeds of sale are usually left in the buying country, either to be used by the purchasing Government for some purpose approved by the United States Government, or in some cases to be converted into dollars several years hence. At the present time, for example, a deal is being worked out with Brazil for a 40 year credit payable in Brazilian currency. I do not think it is unfair to say that in most cases the United States will receive in payment only a small fraction of the selling price. In other words, this is a form of foreign aid, rather than a method of sale.

Thirdly, the United States attempts to trade its wheat against strategic materials. I do not think it is unfair to say, from the evidence available, that the emphasis is more on disposing of wheat than on securing supplies of strategic materials. Fourthly, the United States offers wheat without payment to countries which are in dire need, because of some calamity. In principle, of course, there can be no objection to such gifts, provided that they are not used to destroy commercial markets, which would otherwise have been available. Fifthly, in recent weeks the United States has been offering limited quantities of grain by auction to the highest bidder. To this auction method of selling we have taken the strongest exception, because it destroys confidence in the whole world price structure.

As I said, I do not think that the United States intends to harm Canada by any of its policies. Yet there can be no doubt that, whatever the intention, the methods used by the United States to dispose of its wheat surpluses have been harmful, not only to Canada, but to the wheat situation in general. The Canadian Government has pointed this out to the Administration time after time, over the past year or so, through diplomatic channels, and by other more direct means of communication. When the members of the United States Cabinet were in Ottawa in September, to meet members of the Canadian Cabinet, I put the Canadian point of view before our American friends more strongly than ever before. As a result, Secretary Benson arranged for a meeting in Washington between officials of the two Governments. To indicate his personal interest in the matter, Mr. Benson himself appeared at these Washington meetings. After a year or more of continuous representations, climaxed by these recent meetings between Cabinet members and officials, there can be no doubt whatever in the minds of the United States Administration about the Canadian attitude. Already, indeed, there have been some significant changes in United States policies as a result of the representations which Canada made, and monthly meetings have been arranged between officials of our two countries to keep the situation under close review.

It would have been more satisfactory, of course, if the United States Administration had agreed to abandon its surplus disposal activities. But let us be realistic. Is this likely to happen immediately? I do not think so. But what I do think is that the United States, both the Administration and the Congress, will be prepared to listen to reason.

The problem in the United States stems from the fact that prices in that country are being supported at levels well above those prevailing on world markets. The United States would not sell any wheat at all, if exports were not being subsidized. It would be unreasonable therefore for Canada to protest at every subsidized export, or at every open or thinly-disguised "give-away". If we did protest every time the United States subsidizes exports, or sells for local currency, or sells in exchange for strategic materials, the Administration would cease paying any attention to us.

This is the reason, too, why it is unrealistic to try to get the United States to put a bushel limit on their surplus disposal activities. The United States would do that only if Canada, Australia, France and other exporting countries would likewise agree to limit their exports.

It has been suggested that Canada and the United States are "ganging-up" against the rest of the world. This is simply not the case. If there were any agreement between us to divide world markets or to maintain prices, there would have been no point in the protests that Canada has been making. There is no cartel or anything approaching a cartel, and I do not think that the Government of either country would agree to one being formed. All that Canada is striving to do is to prevent a recurrence of the sort of situation that arose in the 1930's when each exporting country, in its anxiety to unload its surplus, kept offering at lower and lower prices until top grade wheat touched 37 cents per bushel in store at the Lakehead - without bringing about very much change in the size of the surpluses themselves.

Strangely enough, I have heard suggestions that Canada should deliberately imitate the United States policies of surplus disposal. It has been suggested to me, for example, that Canada should sell wheat for local currencies. What this really means, of course, is that Canada should go in for disguised "give-aways" or discounts, because that is what sales for local currencies amount to. Quite frankly, I do not see how Canada could hope to go on selling wheat for dollars or the equivalent of dollars to our best customers, and at the same time offer wheat for local currencies to other countries. If the local currency is as good as dollars, then there is no difficulty in selling for dollars. If the local currency isn't as good as dollars, then the wheat is really being sold at a discount, and in extreme cases for nothing. I hope that Canada will never have to resort to this kind of unfair and unwholesome trading practice. Let us continue to deal openly and above board with all our customers.

The third most important reason for present marketing difficulties is, in my view, the subsidization of wheat production in so many countries of the world, both importing and exporting. When I hear people say that the price of Canadian wheat is so high that it is encouraging production in other parts of the world, I wonder whether they have really looked at the facts. What is the price of wheat to producers in the United Kingdom? As closely as I can figure it, the price is about \$2.25 per bushel. In France it is \$2.60, in West Germany \$2.75, in Italy \$2.80.

This continuing subsidization of wheat is one of the chief reasons for the current world surplus of wheat. At a time when exporting countries are fully able to supply importers' needs, the importing countries, by high internal prices, are encouraging their farmers to go on increasing their production. This is economic nonsense. The world would be richer, and so would the importing countries themselves, if this form of distortion of production were to be abandoned. The Government of Canada is doing, and will do, everything in its power to influence other countries to move in the right direction. That is one of the principal reasons why Canada continues to support the idea of an International Wheat Agreement.

Why then are we facing serious marketing difficulties this year? I have given three main reasons: superabundant crops in Canada, disruptive surplus disposal operations by the United States, and heavy subsidization of wheat production in many countries. These reasons lie beyond the direct control of the Canadian Government. Certainly they are not attributable to the Wheat Board system of marketing.

On the other hand, the Government and the Wheat Board are taking all measures within their power to maintain markets for Canadian grain and to prevent demoralization of prices. Let me indicate some of the things that are being done.

Members of the Wheat Board and officials of my Department are visiting all Canada's major markets for grain. Within the last few weeks the following countries have been visited; Japan, Switzerland, Germany, Belgium, Holland, Spain, Portugal, Austria, Italy, the United Kingdom, Sweden and Finland. The visits are intended to supplement the selling efforts of Canadian Trade Commissioners, who are resident in every wheat and flour market throughout the world.

As part of the sustained effort to build up and maintain markets for Canadian grain, the Wheat Board has been inviting representatives from grain consuming interests to come to Canada, to see how grain is grown, inspected and handled. The cost of these visits is borne out of unclaimed balances in old pool accounts of the Wheat Board. Since this scheme was inaugurated months ago, visitors have come from: the United Kingdom, Japan, Germany, Venezuela, Ecuador, Ireland, Switzerland, Peru, Colombia and Brazil.

Although the Wheat Board sells only for cash, the Canadian Government has in a few instances assisted in the sale of quantities of wheat on credit terms by insuring the outstanding credits. As a result, over the past two or three years, $9\frac{1}{2}$ million bushels have been sold to Yugoslavia and $7\frac{1}{2}$ million bushels to Brazil. This year negotiations were completed for the insurance of a maximum of $9\frac{1}{2}$ million bushels of number 5 wheat to Poland. To date, that country has taken up about $1\frac{3}{4}$ million bushels. These transactions are exceptional, to meet exceptional cases. Most countries, of course, prefer to pay cash, in order to avoid the insurance and interest charges.

As far as prices are concerned, the Wheat Board has met the competition. On the other hand, it has refused to be panicked. It has refused to put its wheat on the auction block, to be knocked down to the highest bidder. If the Wheat Board had gone in for that sort of selling, which it has sometimes been urged to do, and which from time to time the United States seems to be doing, there would indeed have been chaos. I shudder to think of the consequences.

The Canadian Wheat Board cannot, of course, ignore the competition. It cannot afford to maintain an umbrella over its competitors, and watch them walk away with Canada's traditional markets. It will not do so. But what I am convinced it should do, and what it has been doing, is to act as a stabilizing influence on world markets.

In the last crop year, Canada exported 252 million bushels of wheat, including wheat in the form of flour, about the same quantity as in the previous crop year. I had hoped for better results, because of the rather poor quality crops in Europe in 1954. In fact, in the early part of last crop year we were selling wheat at a rate which indicated a probable total export in the vicinity of 300 million bushels. But, in the spring, sales began to taper off quickly, as the United States, by its "give-away" program, began to eat into markets which, on a price basis and under fair competitive conditions, Canada would have supplied. Nevertheless, we did export 252 million bushels, which, together with domestic disappearance of 165 million bushels accounted for an average crop and enabled us to reduce our carryover of wheat on the first of August this year by nearly 100 million bushels.

In this crop year, to date, sales and exports are slightly below last crop year to the same date. The reasons are not far to seek. European crops are better, ocean shipping is scarce and high priced, and markets generally are demoralized by U.S. surplus disposal methods. I am inclined to think, although one cannot be too sure, that the pattern of sales and exports will be just the opposite of that of the last crop year. That is, early sales and exports are disappointing, but volume will improve later in the crop year. Last crop year, before United States surplus disposal activities began to affect us so seriously, the Wheat Board set out to accept delivery of a total quota of 8 bushels per specified acre. This looked like a reasonable target and I agreed with it. Unfortunately, it could not be attained before July 31st and it was necessary to extend the date progressively into the present crop year. I hope that we shall be able to avoid the recurrence of such a situation during the present crop year. I can assure you that no stone will be left unturned to bring the total of deliveries of all grains during the present crop year up to the highest possible level, whatever that may be. The Wheat Board, the Transport Controller and the railway companies have an exceedingly complex task in assuring that grain which can be sold quickly is moved forward quickly, thus creating space for other grain in the country. Unfortunately, because of the general prosperity of the country, there is keen competition for railway box cars, and the supply of box cars for moving grain so far has not been adequate. I have made it plain to the railway companies, however, that there is no higher priority than box-cars for grain, and it would seem that the situation is gradually improving. It is worth noting that during the past several years the problems of marketing durum wheat, barley and oats have not been troublesome. In spite of quotas on barley and oats sold into the United States during the past two years, these grains have been marketed as rapidly as they could be delivered at the Lakehead. I am happy to say that U.S. quotas against barley and oats are no longer in being. Again this year, the demand for durum wheat, barley, and oats is strong, and no great difficulty in marketing these grains is expected. Flax and rye are also in demand. Crops of rapeseed are finding a ready market. The larger proportion of coarse grains, planted this year, is being helpful to our overall marketing problems. An effort has also been made to effect a more equitable distribution of box cars. I am fully aware of the views of your organization, and these views were also made known to the Agricultural Committee of the House of Commons, which made a special study of the question at the last session of Parliament. As the House Committee found, it is impractical to give full effect, under existing congested conditions, to the principle that the farmer should be able to deliver to the elevator of his choice. The Committee did recommend, however, that a car cycle should be introduced on the basis of outstanding orders for cars at local elevator points. This recommendation has been accepted and is now in effect. As you know, the Wheat Board, by its shipping orders, is also attempting to secure a more equitable division of shipments among elevator companies. Taken together, these two measures should go as far as seems practical at the present time towards meeting the problem.

It is not fully realized that, as a result of direct action and encouragement by the Government, there has been a substantial increase in the elevator storage capacity in Canada in recent years, thus adding to delivery opportunities. Since August, 1953 an addition of 2 million bushels has been made to The National Harbours Board elevator at Halifax and a 2.5 million bushel addition to the elevator at Churchill. Since August 1st, 1953, the Government has offered accelerated depreciation to elevator companies which add to their capacity, either in the country or at terminals. Adding it all together, elevator capacity has increased by 39½ million bushels in a little more than two years.

Recognizing that deliveries will be relatively slow in the early part of this crop year, the Government has decided to make advances available to producers through the banks, as was done in 1951 and 1952. The banks have agreed to begin making advances after November 15 even though the legislation which provides the guarantee cannot be approved by Parliament until the new session, which begins after the turn of the year. The purpose of this legislation is to ensure that some cash is available in advance of delivery to producers who have grain on farms available as security, but who cannot obtain loans in the ordinary way from the banks. The maximum amount of loan to any one producer will be \$1,500. It is also provided that only half of the proceeds of subsequent deliveries must be applied against repayment, leaving the producer with current income from grain delivered during the period of repayment.

The Government examined several alternative proposals for making advances available, and came to the conclusion that the method used in 1951 is still the most satisfactory. I am glad to note that several of the Pool leaders agree with me that it would not be wise to get the elevator agents mixed up in the business of making loans, either on account of their own companies, or on behalf of the Wheat Board. They would have exactly the same problems as the banks, plus some others as well, without the training and experience in this complex business.

Mr. Chairman, I have tried to outline our grain marketing problem as I see it. We face a difficult year - for the Wheat Board, the Transport Controller, the Board of Grain Commissioners, for grain handling companies, and, needless to say, for the Minister of Trade and Commerce. Those who wish to be unhelpful in solving our problem, by condemning our marketing system, will have plenty of ammunition for their attack. I hope that those who believe that we are following the right course will be equally vocal.

I believe that, in spite of current difficulties exports will be fairly well maintained for the whole crop year, that price levels will not collapse, and that producers will be able, by the end of the current crop year, to deliver to the Wheat Board the equivalent of a good average crop.

I will make one promise binding on the Government and on the Wheat Board, namely, that nothing will be left undone that can be done toward converting grain into cash as quickly as possible.

