



HOUSE OF COMMONS
CANADA

FARM INPUT COSTS

Report of the Standing Committee on Agriculture

JUNE 1987

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HOUSE OF COMMONS

CHAMBRE DES COMMUNES

Issue No. 32

Feuille n° 32

Tuesday, June 9, 1987

Le mardi 9 juin 1987

Wednesday, June 10, 1987

Le mercredi 10 juin 1987

Thursday, June 11, 1987

Le jeudi 11 juin 1987

Monday, June 15, 1987

Le lundi 15 juin 1987

Tuesday, June 16, 1987

Le mardi 16 juin 1987

Tuesday, June 23, 1987

Le mardi 23 juin 1987

Chairman Lee Clark

Président Lee Clark

Minister of Provincial and Territorial Affairs
of the Standing Committee

Ministre des Affaires provinciales et territoriales
du Comité permanent

FARM INPUT COSTS

Agriculture

l'Agriculture

RESPECTING

CONCERNANT

Respecting to Standing Order 98(2), a study of
farm input costs

Concernant l'ordre du jour 98(2) du Règlement
à l'Assemblée législative, étude sur les
coûts des intrants agricoles

INCLUDING

Report of the Standing Committee on Agriculture

Fourth Report to the House

Quatrième rapport à la Chambre

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*Minutes of Proceedings and Evidence
of the Standing Committee on*

*Procès-verbaux et témoignages
du Comité permanent de*

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Pursuant to Standing Order 96(2), a study of
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Fourth Report to the House

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Points raised to the House

Deuxième session de la
trente-troisième législature, 1986-1987

Second Session of the
Thirty-Third Parliament, 1986-87

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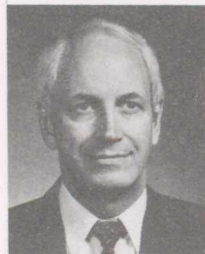
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**THE STANDING COMMITTEE ON AGRICULTURE
HAS THE HONOUR TO PRESENT ITS**

FOURTH REPORT

In accordance with its mandate under Standing Order 96(2), your Committee has examined the question of farm input costs and has agreed to report the following.

In the last session of Parliament the Standing Committee held hearings on the various difficulties farmers were experiencing with the various input costs. The Committee thought to strengthen the stabilization contract entered through the Western Grain Stabilization Program to create a price floor, who have been amongst those worst hit by low prices.

Since then the situation has deteriorated. Commodity prices remain low, while production costs are high. This naturally exerts great pressure on farm incomes. The Committee considers that the maintenance of the major inputs which contribute to high production costs might reveal ways in which these could be reduced.

With this objective in mind, the Committee held a series of public hearings to explore into matters affecting the costs of such inputs as farm machinery, fertilizers, pesticides, and other inputs.

Although the transportation cost of agricultural products on their way to markets are not strictly input costs, many of the witnesses related their views on the costs of these products and so they have been included in this report.

Between November 20, 1964 and May 25, 1965, the Committee held 25 meetings to listen to the testimony of Government and industry representatives which form the basis of this report. The Committee also met the Federal government officials who are affected by the report of the Committee and met 14 other witnesses.

The Committee wishes to express its appreciation to the witnesses who made their time available to the Committee and to the Public Works Commission and Agriculture Canada officials who were very helpful in the Committee's task.

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CHAPTER TWO — FARM FINANCE

PREFACE

In the last session of Parliament, the Standing Committee held hearings on the various difficulties farmers across the country were experiencing with low commodity prices, heavy debt loads and falling land values. The Committee explored, with the Farm Credit Corporation, steps being taken by the government to ease the farm financial crisis. The Committee also sought to strengthen the stabilization assistance offered through the Western Grain Stabilization Program to prairie grain farmers, who have been amongst those worst hit by low prices.

Since then the situation has deteriorated. Commodity prices remain low, while production costs are high. This situation exerts great pressure on farm incomes. The Committee considered that an examination of the major inputs which contribute to high production costs might reveal ways in which these could be reduced.

With this objective in mind, the Committee held a series of public hearings to inquire into matters affecting the costs of such inputs as farm finance, farm chemicals, fertilizer, farm fuels and farm machinery.

Although the transportation and storage of agricultural products on their way to markets are not strictly input costs, many of the witnesses raised issues relating to the costs of these functions and so they have been accorded attention.

Between November 20, 1986 and May 29, 1987, the Committee held 20 meetings to listen to the concerns of farm organizations and industry representatives which form the subject of this report. The Committee examined how federal government programs might be altered to help control input costs and makes 34 recommendations on its findings.

The Committee wishes to express its gratitude to the witnesses who made presentations and to the Farm Credit Corporation and Agriculture Canada officials who were very supportive of the Committee in its task.

CHAPTER SEVEN — FARM MACHINERY

- A. Machinery and Productivity
- B. Importance of Machinery Expenditures to Japan Costs
- C. Price Trends of Farm Machinery and Repairs
- D. Availability of Parts, Services and Extended Warranties
- E. Testing the Performance of Farm Machinery

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CHAPTER ONE

We do not throw out the word "crisis" lightly. The depth of the problem facing western farmers right now is difficult to capture in a five-paragraph newspaper story. Forces are at work, which do not make exciting television viewing, but they exist and they do have an explosive impact. Hard times force farmers to look for ways to reduce their costs in every way possible. It is government's responsibility to ensure that its policies and programs work in concert with this objective and do not inadvertently hinder farmers' ability to compete (Roy Cusitar, Vice-President, United Grain Growers, Issue 16:4, 26-3-87).

INTRODUCTION

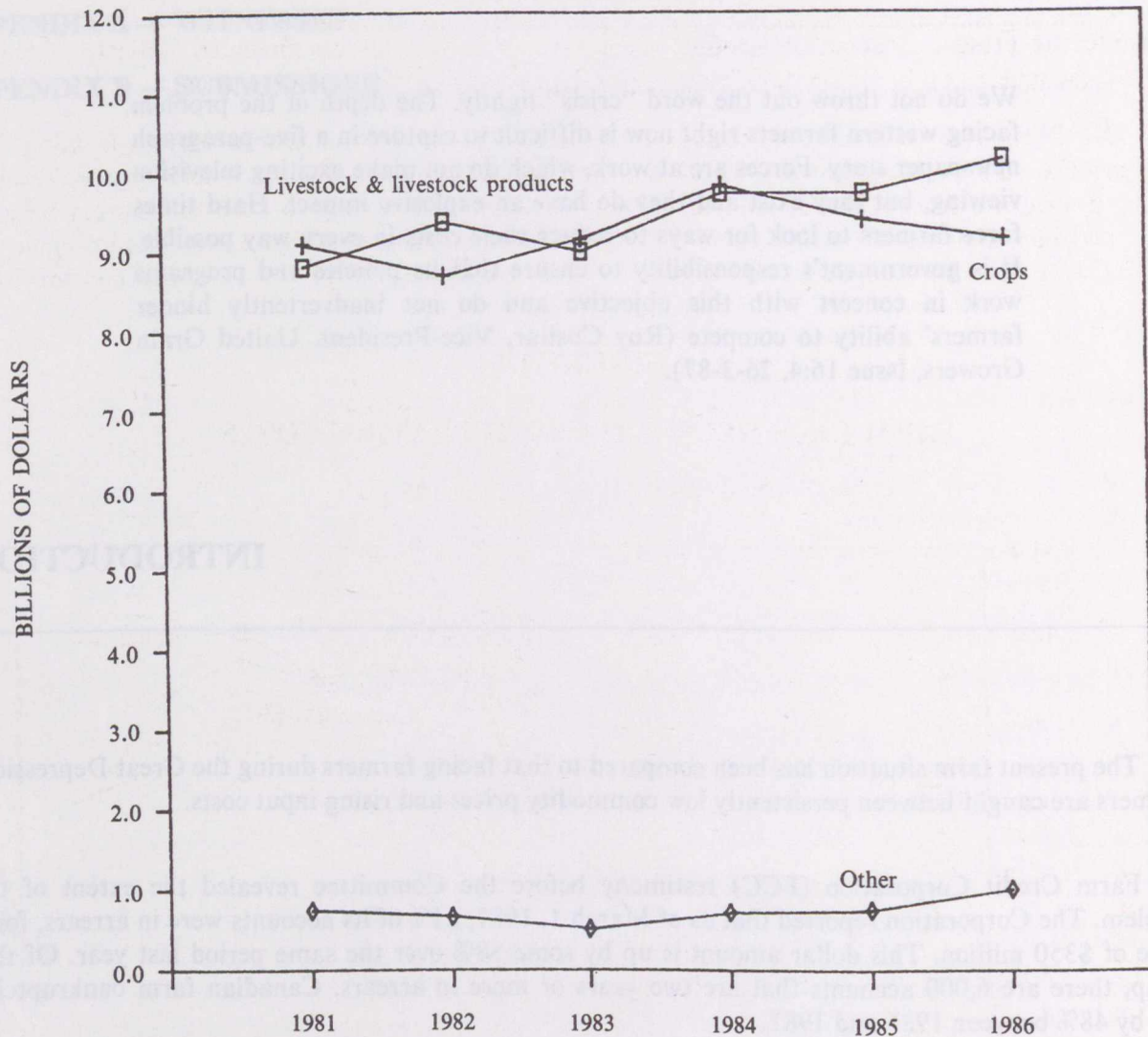
The present farm situation has been compared to that facing farmers during the Great Depression. Farmers are caught between persistently low commodity prices and rising input costs.

Farm Credit Corporation (FCC) testimony before the Committee revealed the extent of the problem. The Corporation reported that as of March 1, 1987, 21% of its accounts were in arrears, for a value of \$350 million. This dollar amount is up by some 38% over the same period last year. Of this group, there are 6,000 accounts that are two years or more in arrears. Canadian farm bankruptcies rose by 48% between 1986 and 1987.

The FCC told the Committee that of the 175,000 farmers with sales over \$20,000, 8% are now insolvent compared to 5% to 5.5% 18 months or two years ago. This figure represents about 14,000 farmers. There are an additional 23% or 40,000 who are having cash flow difficulties, according to the FCC.

The cost-price squeeze produces net income levels in many types of farming which leave little cash flow remaining to cover living expenses, new or replacement investment, or debt servicing. The weak price situation has been particularly acute in grain. On an overall basis cash receipts from farming in Canada rose in 1986, but the increases were confined to the livestock sector. Cash receipts from crops declined for the second year in a row (Figure 1.1). For 1987 Agriculture Canada has forecast that farm cash receipts will remain at about the same level as in 1986, \$20.4 billion, supported by the \$1 billion in payments under the Special Canadian Grains Program.

FIGURE 1.1
FARM CASH RECEIPTS
 By type of product



Source: Statistics Canada, *Agriculture Economic Statistics* (21-603), Ottawa, 1986.

The present predicament is most serious for farmers who invested heavily in farmland in the buoyant period of the 1970s and have seen their original investment dwindle between 1981 and 1986 by half in terms of 1981 dollars. It not only represents a loss in farm wealth but also provides no residual equity to assist with any financial difficulties. Since land values are tied to the capability of the land to generate returns, the present cycle will tend to keep land values in a downward spiral.

From what the Committee heard, the equity erosion problem is serious. In the late 1970s and early 1980s there was a surge of prices, including prices of many commodities. The rate of increase of the Consumer Price Index rose above 10% for the three years 1980-82, leading to a sharp rise in long-term interest rates during a period of heavy farm acquisition. Commodity prices subsequently dropped off, with livestock prices declining in 1983 and grain prices in continuous decline since 1984 as a result of the world-wide buildup of grain surpluses. Land values, which increased sharply in the years 1978-81,

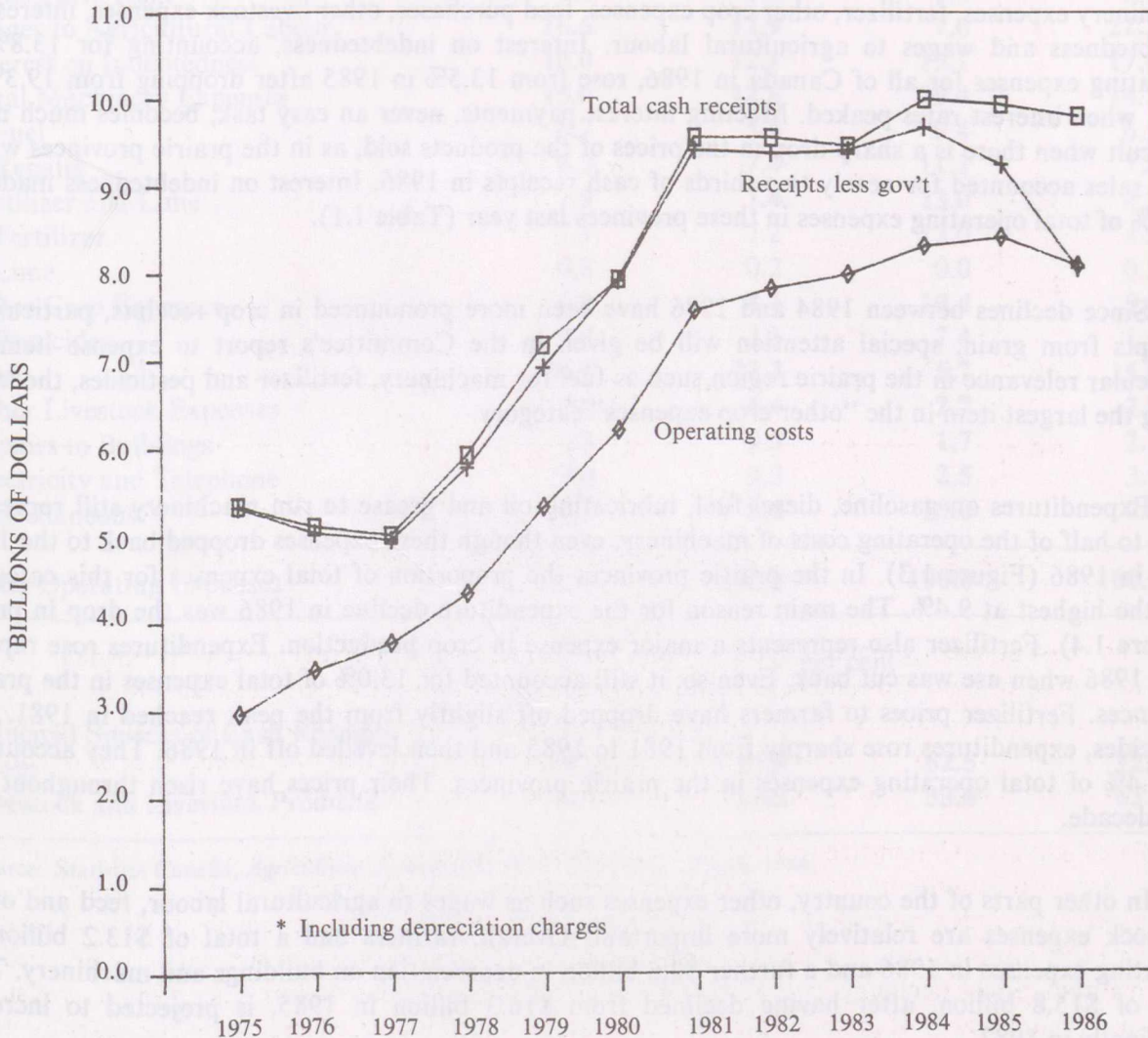
have now dropped back to their pre-1980 levels. Yet, farmers are now carrying 50% more debt than in 1979. Farm credit outstanding has increased from an estimated total of \$14.6 billion then to an estimated \$22.2 billion in 1986.

In the next section, the Committee will mention some existing financial programs that attempt to alleviate the present financial crisis. The Committee will also discuss financial initiatives that go beyond the present problem to attack excess farm debt through structural adjustments.

The Committee received much evidence of the reduced margin of profitability in farming. The Western Canadian Wheat Growers Association (WCWGA) painted a picture of declining profitability in the prairie provinces whereby government payments were necessary to keep the margin between farm revenues and costs from dropping to zero in 1986 as shown in Figure 1.2. According to the WCWGA, even with government payments, net farm income on the prairies dropped by more than

FIGURE 1.2
FARM CASH RECEIPTS AND OPERATING COSTS*

Western Canada, 1975 - 1986



Source: Statistics Canada, *Agriculture Economic Statistics* (21-603), Ottawa, 1986.

\$200 million between 1984 and 1986. Operating costs as a percentage of cash receipts with government payments rose from 55% in 1975 to 83% in 1986. Excluding government payments, they increased from 56% to 100% over the same period. While the estimates have subsequently been revised somewhat, the evidence of a severe problem is still apparent, with the drop in realized net income from 1984 to 1986 for the prairie provinces currently estimated at \$81 million. The Committee was also told by the Ontario Corn Producers Association that these growers "... have been just as devastated by low grain prices as have the grain farmers of western Canada" (Issue 19:5, 8-4-87).

Industry observers are not optimistic about improved market prices for grains in the near future. Low grain prices are likely to continue as long as excessive grain supplies exist. The FCC witnesses warned that "The coming two years could be the most severe in terms of the adjustment which the industry and FCC may have to deal with, given the growing number of farmers who are in poor financial shape" (Issue 14:5, 24-3-87).

With these prospects, programs to alleviate the financial pressures farmers are experiencing must be directed at the input side of the production equation.

For Canada as a whole, for all types of farming, the largest operating expenses are incurred for machinery expenses, fertilizer, other crop expenses, feed purchases, other livestock expenses, interest on indebtedness and wages to agricultural labour. Interest on indebtedness, accounting for 13.8% of operating expenses for all of Canada in 1986, rose from 13.5% in 1985 after dropping from 19.3% in 1981 when interest rates peaked. Meeting interest payments, never an easy task, becomes much more difficult when there is a sharp drop in the prices of the products sold, as in the prairie provinces where crop sales accounted for nearly two-thirds of cash receipts in 1986. Interest on indebtedness made up 15.1% of total operating expenses in these provinces last year (Table 1.1).

Since declines between 1984 and 1986 have been more pronounced in crop receipts, particularly receipts from grain, special attention will be given in the Committee's report to expense items of particular relevance in the prairie region such as fuel for machinery, fertilizer and pesticides, the latter being the largest item in the "other crop expenses" category.

Expenditures on gasoline, diesel fuel, lubricating oil and grease to run machinery still represent close to half of the operating costs of machinery, even though these expenses dropped back to the 1981 level in 1986 (Figure 1.3). In the prairie provinces the proportion of total expenses for this category was the highest at 9.4%. The main reason for the expenditure decline in 1986 was the drop in prices (Figure 1.4). Fertilizer also represents a major expense in crop production. Expenditures rose rapidly until 1986 when use was cut back. Even so, it still accounted for 13.0% of total expenses in the prairie provinces. Fertilizer prices to farmers have dropped off slightly from the peak reached in 1981. For pesticides, expenditures rose sharply from 1981 to 1985 and then levelled off in 1986. They accounted for 7.4% of total operating expenses in the prairie provinces. Their prices have risen throughout the past decade.

In other parts of the country, other expenses such as wages to agricultural labour, feed and other livestock expenses are relatively more important. Overall, farmers had a total of \$13.2 billion of operating expenses in 1986 and a further \$2.6 billion in depreciation on buildings and machinery. This total of \$15.8 billion, after having declined from \$16.3 billion in 1985, is projected to increase marginally in 1987.

While Statistics Canada and Agriculture Canada do not treat transportation and storage of agricultural products on their way to markets as farm input costs, many of the witnesses raised issues relating to the costs of these functions. Accordingly, the Committee has examined some aspects of how government programs can be altered to help control input costs as well as those coming under the category of farm operating expenses.

TABLE 1.1

RELATIVE IMPORTANCE OF MAJOR INPUT COSTS AND SOURCES OF TOTAL CASH RECEIPTS BY REGION, CANADA, 1986

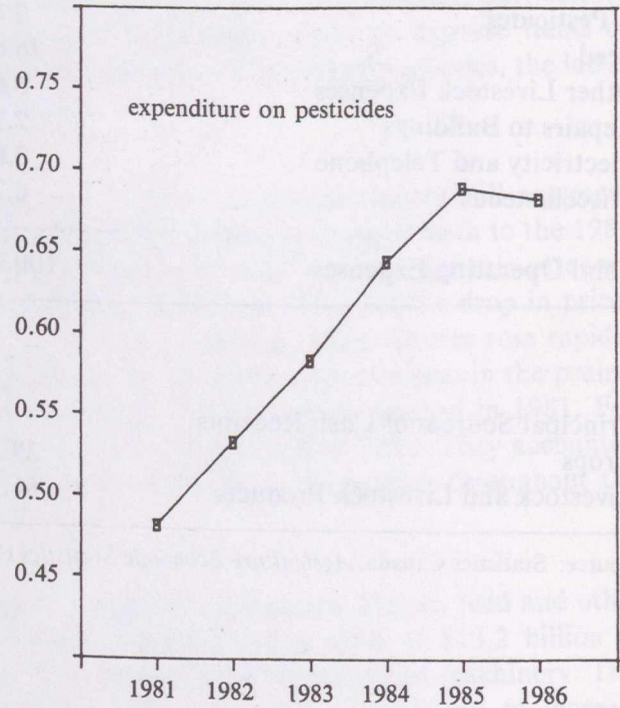
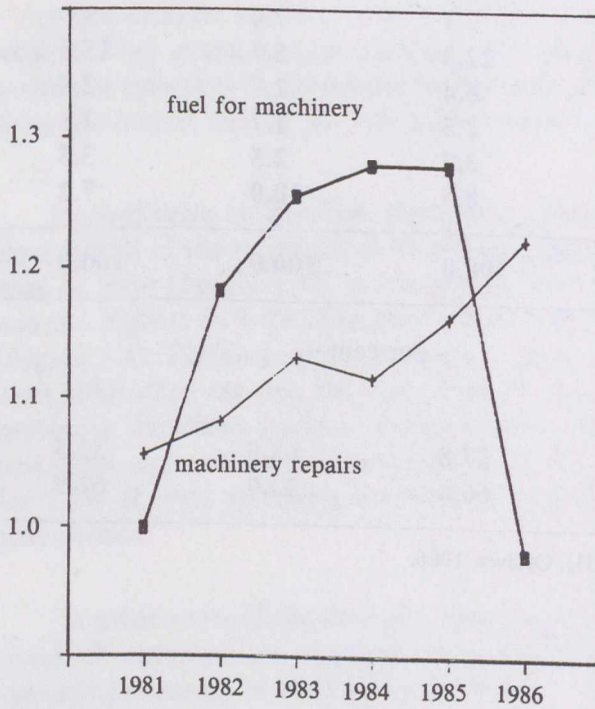
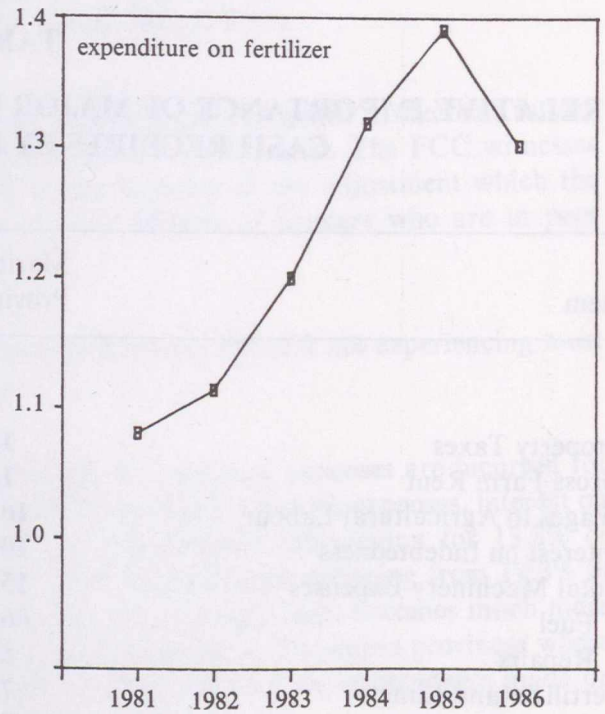
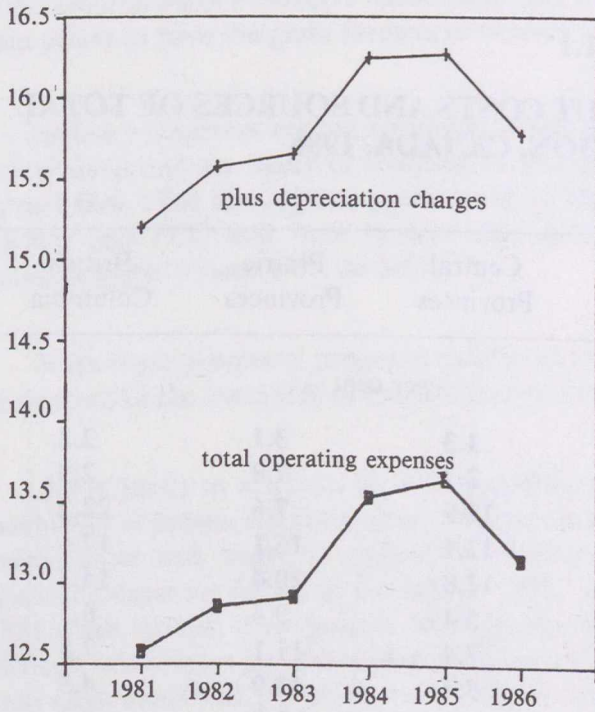
Item	Maritime Provinces	Central Provinces	Prairie Provinces	British Columbia
	- per cent -			
Property Taxes	1.3	1.3	3.1	2.2
Gross Farm Rent	1.2	2.1	7.8	2.5
Wages to Agricultural Labour	16.6	12.9	7.6	22.2
Interest on Indebtedness	10.0	12.1	15.1	17.6
Total Machinery Expenses	15.0	12.8	20.4	14.3
Fuel	6.7	5.4	9.4	6.5
Repairs	8.3	7.4	11.1	7.8
Fertilizer and Lime	7.9	7.4	13.0	4.5
Fertilizer	7.1	7.2	13.0	4.3
Lime	0.8	0.2	0.0	0.2
Other Crop Expenses	6.8	8.1	10.4	5.4
Pesticides	3.4	3.1	7.4	1.9
Feed	26.6	22.3	5.7	15.8
Other Livestock Expenses	3.0	6.4	2.7	2.9
Repairs to Buildings	2.3	2.5	1.7	2.1
Electricity and Telephone	3.0	3.3	2.5	3.3
Miscellaneous	6.2	8.8	10.0	7.2
Total Operating Expenses	100.0	100.0	100.0	100.0
	- per cent -			
Principal Sources of Cash Receipts				
Crops	29.3	27.8	62.5	32.3
Livestock and Livestock Products	66.1	66.6	33.0	62.5

Source: Statistics Canada, *Agriculture Economic Statistics* (21-603), Ottawa, 1986.

FIGURE 1.3

TRENDS IN SELECTED EXPENSE ITEMS, CANADA 1981-86

Billions of dollars

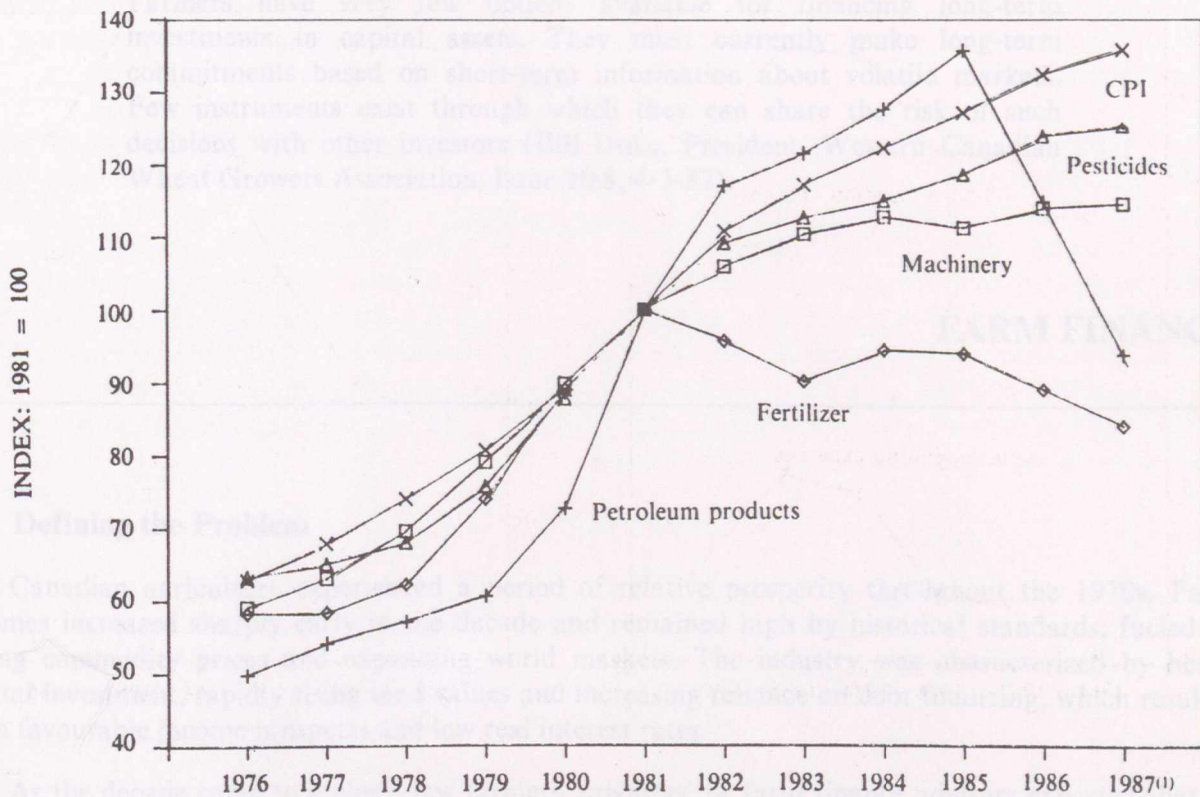


Source: Statistics Canada, *Agriculture Economic Statistics* (21-603), Ottawa, 1986.

FIGURE 1.4

FARM INPUT PRICE INDEX

Selected items, 1976 — 1987



(1) FIRST QUARTER

Source: Statistics Canada, *Farm Input Price Index* (62-004), Ottawa, 1987.

Farmers have very few options available for financing long-term investments in capital assets. They must currently make long-term commitments based on short-term information about volatile markets. Few instruments exist through which they can share the risk of such decisions with other investors (Bill Duke, President, Western Canadian Wheat Growers Association, Issue 10:8, 4-3-87).

FARM FINANCE

A. Defining the Problem

Canadian agriculture experienced a period of relative prosperity throughout the 1970s. Farm incomes increased sharply early in the decade and remained high by historical standards, fueled by strong commodity prices and expanding world markets. The industry was characterized by heavy capital investment, rapidly rising land values and increasing reliance on debt financing, which resulted from favourable income prospects and low real interest rates.

As the decade came to a close, few farmers, creditors, or farm finance advisors expected that by late 1981, interest rates would reach unprecedented high levels, that commodity prices would subsequently fall as production outpaced demand on a world scale, and that farm asset values would begin to decline. The combined effects of restricted cash flow, record high interest rates, and eroding equity generated widespread financial stress in the industry, particularly for highly leveraged producers.

Significant increases in debt refinancing activities, accounts in arrears and financial failures since 1980 provide strong evidence of the deteriorating financing situation throughout the industry. Successive years of drought in 1984 and 1985 and deterioration in international commodity market conditions have had an especially devastating impact on income and thus financing conditions Canada-wide, particularly in western Canada.

Quantifying the true depth and extent of farm financing problems among farm businesses must be done with caution: no one financial indicator is sufficient to describe the extent or nature of farm financial problems or a farmer's ability to meet his or her debt servicing requirements. Both Agriculture Canada and the Farm Credit Corporation have estimated the number of farms in financial difficulty by focusing on debt servicing capacity and performance. These two sets of estimates are useful indicators of farm financing difficulty because they both focus on debt servicing.

The Farm Credit Corporation's estimates are based on a survey of farmer financial statements; Agriculture Canada's estimates are based on a survey of creditors' views on the severity of clients' debt servicing problems. Agriculture Canada's estimates are about 10 months older than the FCC's.

The scope of the FCC's categories are broader than those of Agriculture Canada: a farmer would fall into one of the two "difficulty" categories if he met any one of the criteria. Multiple criteria have to be met to fall into any one of Agriculture Canada's "difficulty" categories.

Both sets of estimates suggest that the number of farmers with financing difficulties increased over the course of 1986 and that creditors took a more optimistic view of the farmers' financial situation than the FCC's criteria allow. The reader is reminded both that the definition of financial difficulty is somewhat arbitrary and that a significant number of farmers are experiencing debt financing problems.

The Farm Credit Corporation used its 1984 Farm Survey to obtain estimates of today's conditions. Adjustments were made to asset, debt, income and expense values to approximate current conditions. The results are shown in Table 2.1. As of January 1, 1987, it was estimated that 8.0%, or 13,760 Canadian commercial farmers, could be in a nearly insolvent financial position. Proportionately, the greatest number were in Saskatchewan, followed by Alberta. This group of farmers accounts for about \$1.7 billion of debt. A second group of farmers are in a cash flow difficulty category. Some 23% of farmers are in this group. Those with cash flow difficulties have \$10.3 billion in agricultural debt. The potential exists for some of the debt of both these categories to be non-collectable and lost by lenders. Further projections of agricultural conditions into 1988 with current information suggest that the number in the insolvent category could increase.

TABLE 2.1
CLASSIFICATION OF FARMERS BY DEGREE
OF FINANCIAL STRESS BY REGION

(Excludes farms with sales less than \$20,000)
as at January 1, 1987

Region	Insolvent	Cash Flow Difficulty	Stable	Number of Farmers
Alberta	9.9	22.2	67.9	33,352
Saskatchewan	11.4	28.3	60.3	46,530
Manitoba	5.4	18.3	76.3	17,258
Ontario	6.3	21.6	72.1	40,155
Other Provinces	5.1	21.8	73.1	34,442
Canada	8.0	23.2	68.8	171,465

Source: Farm Credit Corporation, Brief to the House of Commons Committee on Agriculture, March 24, 1987, p. 6.

The Farm Credit Corporation defined farmers as "insolvent" if 40% or more of farm sales were used to service debt, if borrowings exceeded 110% of investments, or if equity was less than 15%. Farmers were classified as being in "cash flow difficulty" if 25% to 40% of farm sales were used to service debt, borrowing was 105% of investment, or equity was between 15% and 40%.

Based on a March 1986 survey, Agriculture Canada has estimated the number of farm borrowers in financial difficulty (Table 2.2). For the purpose of that assessment, farm borrowers in financial difficulty were disaggregated into three categories of financial stress defined as follows: non-viable farms which were generally considered insolvent, with creditors having initiated demand for payment or intending to initiate such action; deteriorating farms where the financial situation was eroding and

could be expected to deteriorate into a non-viable financial situation within two years; and financially vulnerable farms which were expected to continue as viable operations but were experiencing some short-term financial difficulty, usually evidenced by accounts that had recently fallen into arrears. These Agriculture Canada data suggest that 21,050 or 11.7% of farm borrowers were either non-viable, deteriorating, or financially vulnerable.

TABLE 2.2

**ESTIMATED NUMBER OF FARM BORROWERS IN FINANCIAL DIFFICULTY
BY REGION, 1986**

(Per cent of region's farm borrowers in brackets)

	Non-viable	Deteriorating	Financially Vulnerable	Total
British Columbia	175 (2.5)	200 (2.9)	310 (4.4)	685 (9.8)
Alberta	930 (3.0)	1470 (4.7)	2055 (6.6)	4455 (14.4)
Saskatchewan	1115 (2.4)	2480 (5.3)	2950 (6.3)	6545 (14.1)
Manitoba	470 (2.4)	730 (3.8)	1250 (6.5)	2450 (12.8)
Ontario	540 (1.9)	830 (2.9)	1370 (4.7)	2740 (9.5)
Quebec	380 (1.0)	820 (2.1)	1305 (3.4)	2505 (6.5)
Atlantic	290 (3.4)	430 (5.1)	950 (11.2)	1670 (19.8)
Canada	3900 (2.2)	6960 (3.9)	10190 (5.7)	21050 (11.7)

Source: Agriculture Canada, *Farm Financial Assessment Report*, April 1986, p. 4.

Farm cash flow (i.e. total cash receipts less total operating expenses excluding interest charges) has not kept pace with debt servicing requirements (i.e. annual principal and interest charges on all debts) over the past ten years. Although recent forecasts by Agriculture Canada suggest debt servicing requirements as a proportion of cash flow decreased in 1986 and will continue to decrease in 1987, a review of Table 2.3 below indicates that a difficult debt servicing situation remains. Not all of the industry's annual cash flow can be used to service farm debt: it must also meet rising levels of family consumption at least in nominal terms, while sustaining existing levels of productive resources through reinvestment in the farm.

TABLE 2.3
CASH FLOW AND DEBT SERVICING REQUIREMENTS, CANADA

	Cash Flow	Debt Servicing Requirements	
	\$ million	\$ million	per cent of cash flow
1971	1974	534	27.1
1972	2679	567	21.2
1973	3453	746	21.6
1974	4726	949	20.1
1975	5284	1133	21.5
1976	4840	1403	29.0
1977	4476	1618	36.1
1978	5505	1970	35.9
1979	6614	2449	37.1
1980	7018	2969	42.4
1981	8654	3989	46.0
1982	8169	4064	49.7
1983	7644	3637	47.5
1984	8767	3945	45.0
1985	7852	3586	45.7
1986	8837	3153	39.8

Source: Agriculture Canada, *Farm Financial Assessment Report*, April 1986, p. 25.

In 1981, total operating expenses rose 20% over 1980 and interest payments claimed over 19% of total operating expenses. During much of 1981, interest rates rose sharply and many farmers with floating interest rate loans or who were arranging mortgage renewal faced potentially crippling debt payments. Interest payments are still a major expenditure, particularly in western Canada where they comprise over 15% of provincial total operating expenses (Table 2.4).

Among the one-third of Canada's farmers who are the most productive yet carry most of the farm debt, interest payments represent a much larger percentage of their total expenditures. Studies conducted by the Farm Credit Corporation, the Saskatchewan Wheat Pool and others confirm that approximately 30% of producers are responsible for about 75% or more of farm debt, and therefore 75% of the interest paid. For those operators, interest expenses may account for more than half of their total operating expenses. In comparison, farmers whose only debt is operating credit obtained to produce a crop may incur interest expenses representing only 5% of total operating expenses.

The Committee notes that a combination of international and domestic macro-economic factors (e.g. U.S. interest rates; the value of the Canadian dollar; federal government commitment to fiscal responsibility) have encouraged the decline in interest rates in the Canadian economy as a whole and have helped to push FCC interest rates to their lowest levels in seven years.

Declining interest rates are a significant part of the solution to farm financing problems and have an immediate impact on the 60% of farm debt borrowed at floating rates. In other words, if interest rates had not declined from their peak in 1981, farm interest costs would be about \$1 billion more than they are today.

TABLE 2.4

**INTEREST ON INDEBTEDNESS AS A PERCENTAGE OF
TOTAL OPERATING EXPENSES***

	<u>1986</u>
Canada	14%
Newfoundland	5%
Prince Edward Island	11%
Nova Scotia	8%
New Brunswick	13%
Quebec	13%
Ontario	12%
Manitoba	12%
Saskatchewan	15%
Alberta	17%
British Columbia	18%

* not including depreciation

Source: Statistics Canada, *Agriculture Economic Statistics* (21-603), Ottawa, 1986.

B. Meeting the Challenge

In response to continuing farm financial problems federal government assistance programs and expenditures, including financial assistance, have expanded substantially in this decade. In 1986 in credit alone the federal government held 24% of the debt outstanding in Canada and extended 4% of the credit. Among the federal government initiatives since mid-1984 directed toward farm financing are the following:

- a special interest rate reduction program for FCC's clients to refinance mortgages at interest rates reduced by about 4.5%;
- FCC's Shared Risk Mortgage Program to reduce the impact of interest rate fluctuations by setting a 2½% ceiling on interest rate changes, and sharing the costs and benefits between borrowers and lenders;
- FCC's Commodity Based Loan Program to reduce the impact of income variability and confer cash flow advantages to the borrower with low equity relative to debt by offering low interest rates on loans and linking debt payments to commodity prices;
- revision of the *Advance Payments for Crops Act* to increase advances for all eligible producers of storable crops except wheat, barley and oats to \$30,000;

- interest free cash advances to farmers of wheat, oats and barley whose grain could not be harvested in the fall of 1985 because of wet or snow-covered fields;
- extension of the Small Business Bond Program for two years for farmers in financial difficulty to provide loans at below market rates usually at half of the prime rate plus 2% – 3%;
- extension of the *Farm Improvement Loans Act* to guarantee commercial loans for certain farm improvements at an interest rate maximum of 1% over the prime lending rate; and
- extension of the *Farm Syndicate Credit Act* to provide FCC loans for the joint purchase of farm machinery or buildings.

Government financial assistance is only a part of overall federal and provincial government expenditures on agriculture which in 1986 reached \$2.9 billion annually. This compares with \$819 million in 1980. These expenditures do not include tax expenditures or operating credit guarantees.

Notwithstanding government financial contributions, the financial outlook for the agricultural sector is still serious and may remain so for some years, given the variability of export markets. To provide some perspective on the costs involved, estimates based on the 1984 Farm Credit Corporation Farm Survey indicate that in 1983 a one-time loan reduction of nearly \$7 billion or, alternatively, an annual interest rate subsidy of \$560 million would have been required to remove all farmers from financial stress. These costs have undoubtedly escalated considerably in the last three years. It would appear that assistance programs alone in an extended period of financial downturn do not answer the agricultural community's needs.

Over the course of the Committee hearings, witnesses expressed much concern with the difficulties of financing the acquisition, maintenance, and expansion of farm businesses, that farm financing difficulties are essentially the result of low incomes and excessive debt financing, and that the debt servicing problem is widespread and must be addressed through long-term restructuring; the traditional farm financing mechanisms of generating funds within the farm, bringing funds to the farm business through off-farm employment and debt financing are no longer appropriate. Debt servicing problems under the prevailing economic conditions suggest that financing alternatives warrant consideration by the federal government.

The Standing Committee in its assessment of the challenges of farm financing, has decided to focus on the new proposals presented to it that appear promising: (1) the equity financing proposal of the Farm Credit Corporation; (2) registered farm investment funds; (3) guaranteed vendor financing; (4) FCC lease-purchase agreements; (5) changes to the mandate of the Farm Credit Corporation; and (6) extension services in the area of farm finance.

In addressing debt concerns, the Committee realizes there is no one solution to current farm financial problems. It will take the will of business and farm leaders, and governments concerned to respond to today's agricultural challenges. Complete financial recovery will likely entail:

- (1) an enduring recovery in international grain markets (e.g. improved grain prices);
- (2) a stable and favourable macro-economic environment (e.g. favourable exchange rates; stable and affordable real interest rates);
- (3) continued financial restructuring within the industry aided, in extreme cases, by readjustment programs (e.g. Farm Debt Review Boards, Canadian Rural Transition Program); and
- (4) provision by governments of short-term income assistance (e.g. Special Canadian Grains Program).

There are no "cure-alls" for farmers in severe financial difficulty but a start must be made to tackle the debt financing issue and help prevent its recurrence. The Committee hopes that its suggestions will be received in this light: not as supplanting the fundamental changes which must occur if farms are to remain viable and competitive, but as providing farmers with a means to respond to changing economic circumstances with better options for strengthening the capital structure of their farms.

1. The Farm Credit Corporation's Equity Financing Proposal

Owners of farm business have three types of financing they can use to establish, maintain, or expand their farm businesses: they can use their own equity; they can use the equity capital supplied by other individuals or institutions; or they can resort to debt financing.

As noted earlier, from the mid 1970s to the early 1980s, low real interest rates, rising farm asset values and favourable commodity markets enticed farmers, their advisors, and creditors to rely increasingly on debt financing as the means of purchasing farm assets. Yet, evidence before the Committee demonstrated that an industry so capital intensive and vulnerable to production and market variability as agriculture could not afford to rely as much as it has on debt financing. The testimony suggests that governments should consider policies to assist farmers in acquiring equity capital of their own. Alternatively, farmers could acquire such capital from other sources.

The precarious position of farmers relying on debt financing was made abundantly clear to the Committee by the evidence of the Western Canadian Wheat Growers Association. In an address to their seventeenth annual meeting, Dr. Daryl Kraft, Professor of Agricultural Economics at the University of Manitoba, provided some useful insight into the current financing crisis facing Canadian farmers. During the 1960s, when commodity and input prices were stable, a farmer could be reasonably assured of meeting his fixed obligations if he had 25% to 30% equity in his operation. The increased volatility of prices and costs throughout the 1970s resulted in a requirement of increased equity, in the range of 50% to 60% in order to be sure of covering fixed costs. According to Dr. Kraft, based on today's situation and intermediate-term market projections, a farmer must have between 70% and 80% equity in order to be reasonably assured of meeting his fixed obligations.

Equity financing has been used extensively in agriculture for many years through partnerships, farm incorporation and leasing. There is a growing consensus, however, that sees a need for an institutional structure for farmers to utilize outside equity capital if they so choose. Much of the interest has been centred around a proposal on equity financing by the Farm Credit Corporation. This interest has been bolstered by witnesses' corroboration that impediments to equity financing are now less relevant; the spectre of losing control of their farms is for many farmers already apparent.

The FCC's intent is to establish a company to purchase farm assets from farmers and lenders, lease and administer these assets, provide extensive management support and counselling to farmers, and offer investment opportunities to investors. The company would provide a means through which farm debt could be replaced with outside equity. The farmer would give up some or all ownership but would retain control and management decision-making power in the existing operation.

A federally-chartered holding company would facilitate the development of provincial investment trust subsidiaries and would provide them with investment and merchant banking facilities. The objectives of such a provincial subsidiary would be:

- (1) to restructure the financial position of farmers who have viable farms and intend to continue farming;

- (2) to facilitate entry into and exit from the industry by farmers;
- (3) to provide lenders with options in administering recovered properties; and
- (4) to provide investment opportunities in agriculture.

Provincial participation in the scheme would be optional. Saskatchewan and Alberta have already indicated interest in the scheme. The initial role of the federal government would be to provide a political and legislative environment for the establishment of the trusts, initial "start-up" capital, and financial support in the form of cash and/or land. If the support were in the form of cash, federal government funding would be on a dollar-for-dollar matched basis with the provinces, to a maximum dollar amount per province. Alternatively, the federal government could provide FCC lands, in which case the provinces would provide a matched cash equivalent of the value of the land.

The provincial trusts would purchase part or all farm assets from farmers and lenders and would give farmers the option to lease back the assets. Properties acquired would be on the basis of their investment value or the productive market value from the expected revenue to be generated from a lease contract, minus the company's financing and operating costs. The lease would be long-term, up to ten years, and would contain a provision offering the farmer a buy-back option. Payments for the assets purchased from farmers would be up to 80% of the value in cash and the remainder in company shares; payment to lenders would initially be in the form of company shares, but later would be 40% of the value in cash and 60% in company shares. Shares could be purchased by farmers at any time, and could be used as a downpayment to purchase leased assets. Shares would be redeemable in the market when they became publicly traded.

Determination of lease payments and the buy-back option mechanism would be established at the time of purchase of the farm assets. Leases could be of three types:

- (1) cash — a fixed price per unit would be established;
- (2) fixed product — a fixed production equivalent would be established, where the annual lease cost would vary with the price of the fixed amount of product; and
- (3) crop share — revenues and expenses would be received and paid in a fixed proportion established between lessee and lessor.

Contact between the farmers and the provincial subsidiaries would be through federally or provincially certified agents who would assist farmers in developing recapitalization and leasing options. Agents would be largely responsible for providing extensive management support and expertise to the farmers. The farmers would be required to make periodic financial reports to monitor financial performance.

The proposal would contain a provision for privatization within a specified time period after establishment. During privatization, shares would be offered for sale to the public. Convertibility features attached to the initial issues of company shares would prevent these shares from losing their value.

Witness support for this equity financing proposal stems, in part, from potential investors' interest in agriculture: "There are several sources of capital, such as pension funds, that have a holding period for assets similar to that of a farming operation, and may be interested in the long-term potential investments in agriculture" (Issue 10:8, 3-4-87).

The Committee has already urged the federal government to instruct the Farm Credit Corporation to come forward with the details of its equity financing proposal (Issue 14:3, 24-3-87).

The Committee feels bound to caution against unjustified expectations of the proposal's impact on farmers in serious financial difficulty. Although nearly insolvent farmers would not likely be able to use external equity financing to continue their farm business, such farmers in desperate financial straits might very well be able to benefit from the FCC's proposal in the course of leaving the farm business. Farmers facing less severe financial difficulty, yet nevertheless currently dependent upon operating loans for survival, could turn to outside equity financing as a means of avoiding an expansion or recurrence of their debt problems.

In the Committee's view, the strength of this proposal lies in its potential to alleviate the structural problem of debt. It provides farmers with access to capital markets and substitutes equity for debt. It offers a means for beginning farmers to acquire a farm over the period of a lease without the same risk as acquiring all the assets outright and with a right of first refusal to buy upon lease term maturity.

There are also a number of farmers who would like to retire but cannot dispose of their assets. They would be able to sell their land to the provincial subsidiaries and acquire some shares in the subsidiaries with the expectation of future capital appreciation of share values.

Depending on provincial interest in the scheme, the program offers assistance that is national in scope and which, if it is successful, could build confidence in farm sector investments. It is however not clear to the Committee what incentives exist to entice the participation of other provinces so that the equity concept may become truly national. Presumably, as the concept catches on participation will be forthcoming. The most difficult period will be the early stages of implementation during which, if there is a lengthy implementation lag, initial interest on the part of farmers, other investors, and provincial bodies could decrease.

At the time of the lifting of the FCC moratorium on foreclosures in the spring of 1987, the FCC had about 475 properties on hand, and the number of recovered properties is already growing, now that foreclosures are proceeding. While this scheme offers a means of improved management of recovered properties, using these properties as a basis for the establishment of the subsidiaries would establish a government-owned land bank. It appears to the Committee that the federal holding company will require capitalization of not just land, but also of cash, in its initial investment.

It has yet to be seen whether private investors will find the investment sufficiently attractive without direct government guarantees. It is anticipated that investors will primarily be farmers or farm organizations who see the advantages of being shareholders in such real estate assets. The Committee is optimistic that the convertibility features attached to the initial issues of company shares will encourage interest in the scheme.

The Committee is aware that the Farm Credit Corporation's proposal is not complete. In its present form the proposal leaves certain important questions unanswered. Unresolved concerns include:

- (1) at what cost to the government, if any, would investors be attracted to purchase shares;
- (2) would the equity financing activities of the proposed federal institution be targeted to a specific category or equity level of farmer;
- (3) what constraints would be placed on the equity financing activities of the provincial subsidiaries; and
- (4) what mechanisms would be in place to ensure some consistency of operation across provinces.

The Committee reaffirms its support of the principle behind the FCC's equity financing proposal, but is not in a position to endorse the scheme at this point, in view of the fact that all aspects of the

proposal have not yet been made known. The Committee looks forward to reviewing the Farm Credit Corporation's completed proposal at the earliest opportunity.

- 2.1 The Committee, therefore, urges the federal government to instruct the Farm Credit Corporation and the Department of Agriculture to treat the development of the FCC's equity financing proposal with urgency.**

2. Registered Farm Investment Funds

As noted earlier, the farmer's own equity for the farm business is usually generated from either off-farm employment or the farm operation itself. One means of facilitating owner/operator equity proposed to the Committee by Prairie Pools Inc. was the Registered Farm Investment Fund (RFIF).

Under the proposal, individuals wishing to enter farming could make contributions to a RFIF that would be tax deductible with interest accruing tax free. Upon withdrawal of the funds, taxes would not be assessed, providing the funds were used to purchase capital assets in a farm. In many ways, the operation of a RFIF would be similar to that of the former Registered Home Owners Savings Plan (RHOSP).

Due to tight profit margins and low cash flows, farmers probably have less opportunity to utilize Registered Retirement Savings Plans (RRSPs) than do other taxpayers. A Registered Farm Investment Fund would provide a means of investing in the farm. For many farmers, investment in the farm is a major source of retirement income. A RFIF would offer a savings vehicle to allow the purchase of initial capital assets during low-income years on an orderly basis. The scheme would also help beginning farmers who are saving to enter farming.

This proposal could complement the FCC's equity financing plan. Farmers who are leasing land could invest in a RFIF as an alternative to, or in addition to, buying company shares. In this way, funds could be accumulated for future capital purchases.

Given the low liquidity of many of today's farmers, a RFIF may be of only limited general benefit; beneficiaries of the scheme would likely be those with considerable taxable incomes. There would also have to be provision made for those farmers who have funds in a RFIF and who find themselves leaving farming.

The Committee feels that the scheme should be targeted toward individuals who wish to enter farming as a full-time career to assist them in the initial purchase of capital assets for their own farm. The Committee believes that the government should encourage equity formation by individual farmers (owner/operators) as another equity strategy to strengthen the capital structure of the farm sector.

- 2.2 The Committee therefore recommends that the federal government review the Registered Farm Investment Fund as an equity scheme for farmers and consider providing the appropriate tax exemptions for registered savings in funds designated for use in farm investments.**

3. Guaranteed Vendor Financed Mortgages

Unifarm presented a vendor financing scheme for the Committee's consideration as a means of transferring real estate without prohibitive costs. In many ways, vendor financing would be a return to financing methods prior to government intervention in agriculture, when private individuals financed much of the transfer of real estate in agriculture. Such loans still represent about 10% of long-term borrowing.

The cost of credit extended by a private individual is usually somewhat lower than the average cost from commercial lenders; vendor financed loans sometimes carry lower or no interest charges, particularly in transfers among family members. This method of financing enables farmers to dispose of their real estate and gain some liquidity at minimum risk.

A vendor financing scheme allows for flexibility between the vendor and the purchaser who can work out a solution particular to the situations of the two parties. It could accommodate intergenerational and other family transfers of real estate. The vendor might be a retiring farmer, who would carry the purchaser either by an agreement for sale or by taking back a mortgage.

Guarantees would encourage individual vendors to extend affordable long-term credit to farmers with the knowledge that in the case of default, the lender would not be out of pocket: "Farmers today face low net returns, high net interest rates and deteriorating asset values. This causes lenders to restrict credit moving capital out of agriculture into other sectors" (Issue 16:10, 26-3-87).

Guarantees to the vendor could be provided by the government in much the same way as it provides guarantees through the *Farm Improvement Loans Act*. Default would occur if the purchaser failed to pay the principal or the interest on the due date, or otherwise breached the terms and conditions of his agreement with the vendor. Options open to the vendor in the event of default could include:

- (1) re-amortization of the loan for a longer period;
- (2) foreclosure and the regaining of title to the property; and
- (3) a request for the guarantor to make payment.

Although the Committee agreed on the principle of government guaranteed vendor financing, it was divided on the extent to which the government should become involved in a scheme which is essentially an unstructured arrangement between two individuals. Unresolved concerns included: how mortgage rates would be determined, who would qualify, and what would be the procedure in the case of default.

4. FCC Lease-Purchase Agreements

Leasing has long been used by Canadian farmers to obtain the use of farmland without the debt financing needed to obtain greater degrees of ownership. It reduces cash flow requirements since lease payments are normally less than mortgage requirements. For the first time in history, over 35% of all farmland is leased land according to the 1986 farm census figures.

Leasing allows the beginning farmer to build equity gradually rather than purchasing a complete farm outright and would facilitate restructuring by farmers currently encumbered with excessive debt. Leasing is also suitable for existing farmers to enable them to meet any temporary or permanent increase in their demand for land.

Proposals put forward by witnesses on leasing were either presented in the context of the FCC's equity financing proposal or focused on the current leasing practices of the Farm Credit Corporation. On the subject of FCC leasing, the Committee has already recommended that the federal government instruct the Farm Credit Corporation to move to longer-term leases of farmland (Issue 14:3, 24-3-87).

Under the terms of its Act, the FCC is normally not able to own land for more than five years. It is therefore unable to lease land for longer than three to four years. Current practice is for the FCC to allow the farmer to purchase the land when the lease matures. The Corporation presently holds land totaling some 200,000 acres across Canada.

The FCC told the Committee in its presentation that it had 6,000 problem accounts which were already two years or more in arrears. Over the next five years, this number is expected to grow substantially. The Committee is hopeful that the debt on some of these accounts will be restructured for the farmer through equity financing or the mediation process of the Farm Debt Review Boards. For those cases that are handled within the FCC itself, or for farmers who for one reason or another prefer to lease rather than own land, longer-term leases, in the Committee's opinion, would be beneficial. They would foster a longer planning horizon; they would allow a longer period to acquire savings; and they would provide the means and impetus for a future purchasing option.

Although the FCC would incur some costs to increase staff requirements to handle a longer-leasing program, assistance in negotiating lease arrangements could be provided by the aforementioned federally or provincially certified agents, who would be administering the equity financing arrangements of farmers. They would be able to guide farmers to the best option for their own particular situation.

For FCC to take on longer-term leasing, its legislation would have to be amended to allow it to own property for more than the present five-year period to which it is restricted. It would also have to gain the agreement of provincial governments. There is some urgency, therefore, according to Committee members, to proceed expeditiously and provide the FCC with a more flexible tool to assist farmers to cope with today's market conditions. Given the severity of farm financing problems, the Committee believes that the FCC needs greater latitude to allow farmers to lease land on a longer-term basis than five years, and to permit farmers to purchase or repurchase the land when the financial situation improves. The purchase option is important, both for the individual farmer, and for the farm community who may have concerns about the FCC becoming a permanent landlord.

2.3 The Committee recommends that the federal government take whatever legislative steps would be necessary to allow the FCC to hold land for longer than five years and encourage the FCC to provide long-term leases with an option for the tenant to renew the lease or buy back the land at the end of the lease agreement.

5. Mandate and Role of the Farm Credit Corporation

Witnesses raised many questions about the FCC's role in providing assistance to farmers, particularly concerning interest rate relief. Should the FCC become the primary farm lender, especially of fixed-rate long-term loans? Should the FCC become the guarantor of loans made with commercial lending institutions? Should the FCC serve as a reduced interest rate lender, offering loans to farmers at below market interest rates? In sum, should the mandate of the FCC be changed and/or expanded to provide greater financial relief to farmers?

Several farm organizations called for expansion and restatement of the Farm Credit Corporation's mandate to provide greater financial relief to farmers: "We support the Farm Credit Corporation and request broadening of its mandate, and encourage the introduction of innovative financing concepts which may benefit producers" (Issue 20:5, 9-4-87).

The Farm Credit Corporation was established in 1959 by the *Farm Credit Act* (FCA) as a federal government crown corporation reporting to Parliament through the Minister of Agriculture. It became the successor to the Canadian Farm Loan Board.

The FCC's role is to provide financial services to enable Canadian farmers to establish, develop, and maintain viable farm businesses, through the use of long-term credit. Until April 1982, funds for FCC programs were borrowed exclusively from the Minister of Finance; since that time, funds can be

borrowed from the Minister of Finance and from domestic and international financial markets, subject to the approval of the Minister of Finance. FCC lending rates are based on the FCC's cost of funds plus a margin rate sufficient to cover all operating costs and loan losses and to provide a return on contributed capital; the rates are reviewed at least monthly.

The FCC focuses on helping farmers who have both the resources and the ability to survive in agriculture, but who are unable to obtain suitable financing from commercial lending institutions. It serves the higher risk portion of the long-term farm credit market. In addition to funding, the FCC makes counselling and assistance in the planning, organization, and development of farm businesses available to all applicants and borrowers.

The FCC makes loans available to farmers for: the purchase of farmland; the building or modernization of farm buildings; the purchase of livestock and equipment; the refinancing of debt; and other purposes that will facilitate the efficient operation of the farm unit.

Loan applicants must be Canadian citizens or permanent residents, and must be of legal age to enter into a mortgage agreement; farming must be a full-time occupation. Loans have renewable terms of 5, 10, 15 and 20 years.

Under the present economic conditions, because it serves the higher risk portion of the long-term farm credit market, the FCC has gradually become more and more a lender of last resort: "We believe the Farm Credit Corporation should be instituted again to be not a lender of last resort but a total lender to agriculture" (Issue 17:7, 31-3-87). The Committee shares this view. As the farmers' fortunes have declined, so have the FCC's, as described by the FCC Chairman, Eiliv Anderson: "I suppose the way to put it is if we were a private company, not being a subsidiary (of the federal government), we would be bankrupt at this time and out of business; but as we are a subsidiary of a larger company that is solvent, we still are solvent" (Issue 27:34, 21-5-87).

The Committee notes that the Farm Credit Corporation will be essentially dependent on funds from the federal government's Consolidated Revenue Fund: after suffering a loss of \$90 million over the last year it may have to show a similar loss this year, "or slightly higher." Again, in the words of its Chairman, "I suspect this year we will be in a negative equity position" (Issue 27:34, 21-5-87).

In view of both the severity of the Farm Credit Corporation's financial position and the increased demand for expansion of the FCC's mandate, the publication of the results of the two-year review of the Corporation's future role and ability to provide affordable financing to the farm community at stable interest rates, is long overdue.

2.4 The Committee recommends that the federal government instruct the Farm Credit Corporation to complete its mandate review and consequent long-term strategy for fulfilling its mandate and that it assign these tasks a very high priority.

Even though the Committee has concerned itself primarily with the problems farming operators are experiencing, the present situation is a particularly discouraging one for those individuals who want to enter farming today. Most provinces offer beginning farmers loans with favourable conditions, interest rate relief or some other incentive. Terms differ across the country and the Committee feels that there is a need on the part of the provincial governments to work towards uniformity in assistance for beginning farmers. The Committee would like to stress the importance for the provinces to continue refining these programs, bearing in mind they should be designed so as to avoid leading to excessive capital costs for land.

Committee members stressed the importance of the role of the FCC in meeting the needs of beginning farmers and safeguarding them from the impact of high mortgage rates on land purchases. Some of these farmers may want to acquire their farms through intergenerational transfers. The Committee believes the FCC should devise programs to ease the transfers from one generation to the next by providing beginning farmers with low-cost mortgages and retiring farmers with more secure futures.

2.5 The Committee urges the FCC to recognize the unique financial problems faced by beginning farmers and design its programs accordingly.

6. Farm Finance Extension Services

Farming has become increasingly capital intensive. The demands on farmers to exercise financial management skills (i.e. to choose the most appropriate mix of financing instruments) have increased commensurately. How much debt financing, owner equity, and external equity financing are required for a successful farm business? A farmer must pay as much attention to these questions as to those regarding other inputs. Only by selecting the right mix of financing instruments will the farmer be able to see his or her farm survive, grow and be profitable.

The call for additional extension services in the area of farm financial advice has been made by the Farm Credit Corporation and other witnesses in the context of the equity financing proposal. The Committee would welcome the inclusion of farm financing extension services in any equity financing proposal, such as that of the Farm Credit Corporation.

A sound financing strategy will not guarantee financial success any more than a sound production or marketing strategy. Only stronger management skills in all three areas will increase the farmer's chances at maintaining the family farm.

2.6 The Committee recommends that the federal government work with provincial governments, lending agencies, and private consultants to provide all farmers — not just those farmers in financial difficulty — with extension services in the area of farm financing.

The Committee supports this latter recommendation with the observation that farm financing extension services are now being offered, in effect, to farmers and creditors appearing before Farm Debt Review Boards. Had beginning and developing farmers and their creditors been more aware of the dangers of excessive debt financing in the last decade, current financing difficulties and financial stress might not be as prevalent in the industry today.

... the company determines what their product is worth to a farmer and then they charge accordingly ... The problem with this pricing to value policy is that it siphons off any benefits a farmer may derive from improved efficiency. ... the seller knows the farmer will have large losses if he does not use the product (Jim McCutcheon, Past President and Chairman of the herbicide committee, Manitoba-North Dakota Zero Tillage Farmers' Association, Issue 5:8, 20-1-87)

FARM CHEMICALS

A. Pricing of Farm Chemicals

In 1986, \$682 million was spent on farm chemicals. Saskatchewan is the largest user of farm chemicals, with expenditures of \$232 million; Alberta follows with \$142 million; Ontario with \$133 million; and Manitoba with \$110 million.

The Statistics Canada farm input price index shows that since 1981, the rate of price increase has been higher in western Canada, except for 1985 and the beginning of 1986 when the price of farm chemicals rose faster in eastern Canada. The testimony of a number of witnesses appears to have been borne out; they stated that, as the cost increased and commodity prices fell, farm chemical use would decline. Purchases of farm chemicals in the prairie provinces fell by 2.9% in 1986.

Farmers in general, and the witnesses who testified before the Committee in particular, appear to be sceptical of the pricing structure of farm chemicals. This does not mean that farmers are blind to the realities of the market place. As expressed by the Ontario Corn Producers Association: "Farmers should be pleased that good profits are made by the manufacturers of certain herbicides. Potential for large profit helps counterbalance the high risk (of developing a commercial product) and the possibility of large losses" (Issue 19:7, 8-4-87). As a result, farmers are able to obtain the chemicals that they need.

About 20 companies share the farm chemical market: some are subsidiaries of big firms like Monsanto, Ciba-Geigy, Hoechst; some are independents like Interprovincial Co-operatives and the United Grain Growers; and some are primarily distributors. Canada actually manufactures only one active ingredient; the rest are imported, either as individual active ingredients or in already compounded form.

The similarities among various products can lead to intense competition, which forces the companies to develop aggressive marketing strategies. Because of this competition, and the restricted number of companies, financial data on the farm chemical market are often kept confidential. Expenditures on farm chemicals may be noted by Statistics Canada, but information on the economic

performance of chemical manufacturers is difficult to obtain. The corporate financial statistics published by Statistics Canada give an overview of the pesticides sector without distinguishing among the various possible uses; consequently, it is not possible to draw a reliable portrait of the agrochemical market from those data.

The Committee asked for and received from the Crop Protection Institute of Canada (CPIC) information on the financial picture of the agricultural chemical industry.

The data received for 16 companies showed that profit figures have declined since 1983 for agricultural chemical producers to a net profit of 2.2%. CPIC officials told the Committee that the products registered and sold in Canada and around the world have to carry the costs of all of the products that do not make it out of the laboratory.

The research and development costs of identifying potential successful products is becoming more expensive. The average cost of the development of a new product on an international basis is estimated to be \$40 million in the mid-1980s. It would appear that the success rate is becoming smaller and smaller as the identification of new and innovative products becomes more difficult to make. In the 1960s 3,000 to 4,000 compounds had to be screened to find a successful one. In the 1970s this ratio was 1 to 7,000 to 10,000. In the 1980s it is 1 to 15,000 to 17,000 and by the 1990s it is expected to be 1 to 25,000 compounds.

The Committee heard that agricultural chemical companies in Canada spend \$25 million per year on research, primarily on field testing. Much of this amount is spent on toxicological studies to meet the registration standards for farm chemical products in Canada.

Representatives from CPIC told the Committee that the price of existing farm chemicals must reflect these research costs, the cost of registering products, the cost of equipping and operating production facilities and the cost of environmentally acceptable waste disposal. Sufficient profit must be generated by sales if a portion is to be reinvested in further research — to benefit both the health of Canadian agriculture and of the industry's profit picture. CPIC told the Committee that the price levels of farm chemicals being charged in Canada are fair and reasonable, given the high research and development costs in the industry and the corresponding high risks inherent in that research, including extra costs to meet Canadian requirements.

This explanation does not, however, reassure the farm community that farm chemical prices will fairly reflect real costs in the future. The Committee considers that price monitoring could assist in allaying their fears and has made a general recommendation in reference to monitoring input prices in a later section.

B. Patents and Registration of Farm Chemicals

Farm organizations expressed considerable concern that federal patent legislation and registration policies hamper competition in the farm chemical market by making entry into the market place difficult and costly.

Products patented in Canada presently have patent protection for 17 years under the *Patent Act*, which falls under the jurisdiction of the Department of Consumer and Corporate Affairs. In reality, this does not necessarily mean that the chemical receives a full 17 years market protection. To be sold in Canada, farm chemicals must also be registered under Agriculture Canada's *Pest Control Products Act*. To obtain registration a company must provide a voluminous data package, which can cost up to \$7 million to prove that it meets safety, merit and value standards. A company cannot apply for registration until the product has been patented. It can take from two to four years after the granting

of the patent for a company to assemble the required data package for registration. Because of its volume, the evaluation of the data may take from one to three years. Once the data is evaluated and accepted, registration most often occurs in years 3 to 6 of the patent period. Thus, the actual market protection available to a product is not the entire 17-year patent period but is most often 11 to 14 years after the product comes on the market.

From 1980 through to June 1, 1987, this period of patent life was effectively extended in perpetuity by a registration policy authorized under the regulations of the *Pest Control Products Act* called Product Specific Registration 80 (PSR 80). Many witnesses singled out PSR 80 as being responsible for the lack of competition in the farm chemical market place and therefore the high cost of farm chemicals.

Before 1980, to obtain registration, data owned by one company could be used to support another's products, i.e. all data were used in common for all registrants. There was no protection of data generated to achieve registration, or, in other words, no data ownership. But, in the late 1970s, concerns arose about micro-contaminants in the active ingredients that form the basis of farm chemicals. The perceived solution was for registration to require that the source of the active ingredient in each formulated product be known and that each active ingredient from each source have its own supporting data base. At the same time, there was pressure from the agricultural chemical industry to recognize data ownership, while Agriculture Canada wanted updated data bases which would confirm the safety of older active ingredients. The department hoped that, if it provided data protection, companies would be willing to carry out additional testing.

Accordingly, Agriculture Canada issued Memorandum R-219 on September 8, 1980. It required that: (1) any new product be supported by its own new data base; and (2) provided unlimited data protection. Before long, however, the department realized that the policy had more disadvantages than advantages. These were expressed by Dr. Jean Hollebhone, Acting Director, Planning and Priorities Division, Pesticides Directorate:

For a start, it promoted monopolies. Once a manufacturer was on the market, he would stay there, and it was very difficult for new sources to get onto the market. Secondly, it did not provide any incentives for these manufacturers or companies on the market to update their data packages. Since they were protected in perpetuity, there was no incentive to provide modern studies. That bothered us considerably, because the keystone of our Act is the determination of safety.

That is the situation that exists with pesticide registration today, that unless a new source of registered active ingredient is prepared to supply a data package to support his source of active ingredient or may obtain (access to data supporting) a registered source from another company. . . he has no access into the market, and we will not register his product. What we would like to do is change it (this policy). Everyone, including ourselves, industry, and growers, realizes it has to be changed (Issue 6:7, 28-1-87).

The effect of PSR 80 on farmers has been significant. With the high cost of producing the full data package required for registration under the policy, only a large corporation which originates a product and which has patent protection has been able to afford to register chemicals in Canada. The extension of right of data ownership in perpetuity under PSR 80, by effectively extending a company's patent rights, made it difficult and expensive for producers of generic products to get their products to market. PSR 80 has therefore been accused of hampering the growth of an agricultural chemical industry in Canada.

Farmers believe that as a result of this situation they have had to pay excessively high costs for a few products. The Manitoba-North Dakota Zero Tillage Farmers' Association told the Committee that, ". . . the cost to produce that data is simply passed on to the farmer through higher prices in

pesticides, which are protected from competition. The farmer, in effect, is asked to sign a blank cheque in order that Agriculture Canada may secure the data" (Issue 5:10, 20-1-87). Also, it would appear that the cost of registration has prevented the marketing of all but major use farm chemicals (e.g. those used on grains). The financial return achieved with minor use herbicides (e.g. those used on horticultural crops), has not justified the expense of data development even for originating companies with considerable patent protection and perpetual data ownership. Thus, farmers of minor use farm chemical-treated commodities must use less efficient inputs while competing with producers in other countries, particularly the United States.

Agriculture Canada has been holding consultations with the CPIC, individual chemical companies and farm organizations for over two years aimed at coming to agreement on changes to PSR 80. The result is PSR II, an interim policy recently announced by the federal government and brought into effect on June 1, 1987.

PSR II is significantly different from PSR 80 and addresses some of the problems identified by the chemical industry and by farmers. It removes the indefinite data protection provision and places a time limit of 10 years from the date of first registration on exclusive use of data used for registration of farm chemicals. New studies completed after first registration will be protected for 15 years from the date of completion of the new study. This additional protection provides an incentive for companies to update data bases to meet modern safety, environmental and performance standards. It permits and encourages the development of generic products by introducing a procedure which allows the originator and the potential generic formulator to make agreements concerning the purchase of data required for registration. The application of a point system for tests carried out for the purpose of registration, so that chemical companies are credited for studies carried out, will also assist Agriculture Canada in obtaining further tests to update data packages. Overall, the new policy is similar to U.S. registration procedures and to those of GIFAP (Association of the European Chemical Manufacturers), the international organization of the agricultural chemical industry, which are followed world-wide. The Committee is pleased to note that the enactment of the new policy could result in a number of new generics being brought onto the market within the next 18 months.

A study is underway within Agriculture Canada to develop a final policy on PSR which will include an examination of alternatives. A discussion paper outlining various alternatives to a product specific registration scheme that includes significant data protection is being prepared and will be released in the summer of 1987 for consultation. The consultation process will provide an opportunity for a more thorough study of the possible options and will give interested organizations a role in the decision-making process.

The recently announced PSR II policy does not address the issues which many farm organizations brought to the Committee, issues involving changes to the *Patent Act*, for example, compulsory licensing or a royalty system for the funding of data requirements. Witnesses expressed the view that changes to the *Patent Act* to allow a compulsory licensing system would generate competition by allowing for the manufacture of generic copies of registered farm chemicals much quicker than is currently the case. Prairie Pools stated the view that: "... a compulsory licensing system would ensure that those who wish to formulate a chemical are able to obtain a licence to produce a product and in return must pay a royalty to the originator of the chemical. This type of patent protection should induce innovation in the farm chemical manufacturing industry while protecting farmers' interests" (Brief to the House of Commons Standing Committee on Agriculture, April 9, 1987, p. 11).

3.1 The Committee recommends that the scope of the Agriculture Canada study, the discussion paper and the consultations on alternatives to Product Specific Registration II be made broad enough to address in depth farm chemical pricing issues, including a

review of requirements for registration, costs of these requirements to the agricultural chemical industry and to the farmer, and consideration of implementing compulsory licensing and royalty systems under the *Patent Act*.

So that Agriculture Canada may make recommendations based on the consultative process to the government concerning methods to lower farm chemical prices to farmers:

- 3.2 The Committee urges the federal government to implement as quickly as possible the recommendations emanating from the consultative process which would provide lower more competitive prices for farmers and that new policies and/or legislative changes be implemented by July 1, 1989.**

C. Advertising Costs

The cost of farm chemical advertising was a major concern of those who appeared before the Committee. Witnesses believed that the amount of advertising was excessive to the need and that farmers were paying for this advertising through increased chemical prices. They are not alone. In an attitude survey undertaken in 1986 for the Crop Protection Institute of Canada, 85% of farmers felt that advertising adds to the cost of crop protection chemicals. The Committee has learned that, according to unaudited figures supplied by the Crop Protection Institute in October 1985, 6% of the farmers' farm chemical cost (apparently 7% - 8% of the value of factory shipments) goes to advertising. This does appear to be higher than the similar figure for industries as a whole.

As the advertising is based on product differences and not price differences, witnesses stated that farmers believe that this expenditure is of little benefit to them. The fact that over one-third of chemical company personnel work in sales and promotion also leads farmers to question the portion of the prices they pay for farm chemicals attributable to advertising.

The Committee understands that advertising and promotion are marketing tools as important for agricultural chemical companies as for any other industry. It believes that the companies do have every right to market their products as they please; nevertheless, their customers, the farmers, are suffering from extremely depressed commodity prices and are now faced with hard decisions on how to spend their limited operating funds.

- 3.3 The Committee urges chemical companies to become more sensitive to farmers' concerns and their ability to purchase and to temper the advertising expenditures passed on to farmers.**

D. The Right to Import Farm Chemicals

A number of witnesses brought forward issues concerning farm chemicals crossing the Canada-U.S. border.

The Committee heard testimony that, since 1977 when the Canada-U.S. border was closed to user imports of farm chemicals, Canada has been a relatively closed market.

Witnesses believed that the regulations to the *Pest Control Products Act* should be amended to permit the Canada-U.S. border to be reopened to consumer imports of agricultural chemicals already registered in Canada. Although they concurred in a general way with information provided by Agriculture Canada showing that, overall, farm chemical prices are not less in the United States than in Canada, they pointed out that for some individual products there was a significant difference in

price. Witnesses considered that farmers should be able to purchase their farm chemicals wherever they could achieve the greatest saving and one group stated that an open border might put the pressure of competition on Canadian prices and reduce them.

The border was closed in 1977 for a number of reasons:

- Health and safety;
- Security of supply;
- Farmers and equity; and
- Performance warranties.

It is obvious that one of the main objectives of closing the border (increasing basic manufacture of farm chemicals and thus ensuring security of supply) has not been met. In the late 1970s there were three Canadian manufacturers of active ingredients; in the mid 1980s, there is only one. However, the number of formulating plants has increased and many companies have established research farms and are actively carrying out experimental work in Canada.

In terms of securing supply, closing the border may indeed have worked. Canadian farmers have generally been guaranteed a supply of a relatively small number of high cost, major use farm chemicals.

The closed border has not had any significant effect on performance warranties. In 1987 concern for the issue of performance warranties still exists and indeed is growing as evidenced by a pilot project being undertaken by the Crop Protection Institute of Canada and the Province of Manitoba to provide a tribunal to mediate in warranty disputes.

The stated objectives of closing the Canada-U.S. border to the importation by the user of chemicals for personal use, were to benefit the farmer; on the contrary, however, they would appear to have hurt him.

The Committee has given some thought to the issue of importation of farm chemicals. The industry says that jobs will be lost in the Canadian formulating sector but if prices are competitive as the industry claims, opening the border should not disrupt the marketplace in any way. The Committee has no definitive answers to competitive pricing in this country but it does believe that an open Canada-U.S. border could act as a price check as it does in other commodities. While there was broad agreement on the value of an open border, there was a division of opinion on whether the border should only be open to distributors who would meet all the Canadian regulatory standards including labelling and warranties, or whether, as the majority thought, farmers should be able to import for their own use. Opinions also differed over a concern that pesticide companies would require a period of exclusivity to recoup costs of registering a product in Canada. Another concern was that opening the border to individual users would not assist those farmers living some distance from the border.

The Committee fully understands that issues of misuse, health and safety, and environmental protection arise in connection with opening the Canada-U.S. border, even to individual purchasers of farm chemicals registered in Canada. The Committee believes that all Canadian standards set by Health and Welfare Canada, Department of Fisheries and Oceans and Environment Canada must be met under any system that is put into place to reduce costs of agricultural chemicals to farmers.

3.4 The Committee recommends that amendments to the regulations under the *Pest Control Products Act* and other relevant legislation be

made to allow importation by individual users of farm chemicals. The proposed regulatory changes must not jeopardize the health and safety of Canadians and the Canadian environment. These changes should be put in place for the 1988 crop year.

A number of witnesses also pointed out the inconsistency of the policy that bans the use of certain farm chemicals that pose a potential threat to the health of Canadians with the policy permitting foodstuffs treated with these chemicals to enter the country. This inconsistency puts Canadian producers at a disadvantage with producers in other countries, particularly the United States, which export food to Canada, but which have access to these farm chemicals that offer more cost effective pest protection. In the words of the Keystone Agricultural Producers: "Canadian producers are denied access to a variety of potentially useful chemical formulations from other countries . . . supposedly because they do not meet the standards or requirements for registration in Canada, while the same formulations are allowed to reach Canadian consumers by virtue of their having been used in the production of food commodities which we import" (Issue 17:6, 31-3-87).

3.5 The Committee recommends that shipments of food which might contain farm chemical residues imported into Canada be accompanied by certificates signed by the importer stating the type of chemical used and the level of chemical residue present.

Canada's major foreign supplier of farm chemicals and foodstuffs is the United States and variations in the registration procedures in the two countries already pose a significant cost for Canadian farmers.

3.6 The Committee therefore recommends that a greater effort be made to reconcile the farm chemical registration procedures of the United States and Canada and other countries.

E. Removing Farm Chemicals from the Market

Several farm groups expressed concern about the removal of farm chemicals from the market. Although 2,4-D was the chemical most often referred to by western producers, the Ontario Corn Producers Association reminded the Committee that Alachlor had already been removed from sale. Both these chemicals have been widely used because of their effectiveness and relatively low cost. The use of other chemicals would be considerably more expensive. Also, as in the case of Alachlor, the removal of Lasso resulted in a Canadian monopoly situation for the manufacturer of the only major competitive product. Moreover, 2,4-D substitutes are all of higher cost. Witnesses stated that products should not be removed from the market without a public review and valid scientific data justifying the action.

The Ontario Corn Producers stated that the present provisions of the *Pest Control Products Act* for the withdrawal of products from the market do not serve the interests of the farmer; they do not make determination on the basis of risks relative to benefits. In making these assertions, farmers are not taking health concerns lightly. As the Committee was reminded, farmers also have families and are also consumers of chemically-treated foodstuffs.

The Committee believes that it is well understood by farmers that where the risk of keeping a product on the market is deemed to be greater than the benefit of its use, it must be removed from sale. Nevertheless, the Committee is concerned that agricultural chemicals currently used and suspected to be harmful to the health and safety of Canadians should not be prematurely removed from sale.

- 3.7 Recognizing the Minister of Agriculture has the right to temporarily ban agricultural chemicals, the safety of which has been called into question, the Committee recommends that a public review be undertaken before agricultural chemicals are permanently removed from sale.**

F. Performance of Agricultural Chemicals

The performance of agricultural chemicals and the inadequacy of product performance guarantees were also discussed. The Committee is aware that the majority of farmers do not face problems of non-performance, but for those who do, the results, perhaps the loss of a crop, can be costly. From the testimony of the witnesses the Committee concludes that instructions for use of some farm chemicals have not been adequate, and that the chemical companies have sometimes been reluctant to share with the farmers the responsibility for non-performance of an agricultural chemical. The Committee therefore endorses the pilot project being undertaken by the Crop Protection Institute of Canada with the cooperation of the Province of Manitoba to establish a tribunal which would settle complaints about the failure of agricultural chemicals to perform as advertised.

- 3.8 The Committee recommends that Agriculture Canada Pesticide Directorate work with provincial governments, the Crop Protection Institute of Canada and farm organizations to develop standards for performance of agricultural chemicals and to ensure that an effective mechanism exists to hear and settle complaints in each province.**

The price farmers receive for their products at the farm gate is, of course, at the world price less the cost of getting the product to world market. It is bad enough that world prices are extremely depressed. It is unforgivable that the slim margins that do exist are further reduced by inefficiency within Canada in getting the products to port (Roy Cusitar, Vice-President, United Grain Growers, Issue 16:5, 26-3-87).

GRAIN HANDLING AND TRANSPORTATION

A. Freight and Handling Charges

Although grain handling and transportation are not strictly input costs, many witnesses appearing before the Committee made excellent cases for these major expenses to be considered in the same way as interest payments, farm machinery and farm chemicals.

In 1986, according to the Canadian Grain Commission, it cost western farmers an average \$42.49 per tonne in elevation tariffs, rail freight, lake freight and marketing charges to ship their grain to the point of export. According to Canadian Grain Commission figures, grain shipped from a mid-point in the Prairies through Thunder Bay incurred costs of \$25.12 in elevation charges at primary, transfer and terminal elevators, transportation costs of \$26.07 (including water transportation costs beyond Quebec City) and marketing costs of \$3.12 (Table 4.1). Charges for grain shipped through the Pacific seaboard are given as \$21.27 in elevation charges, \$6.30 for transportation and \$3.12 for marketing. It should be noted that rail transportation charges do not include the Crow benefit. Total figures for these expenditures were respectively almost \$800 million for handling and \$904 million for rail transportation (made up of the Crow benefit of \$714 million and the producer payment of \$190 million), plus \$239 million for lake transportation, even after most grain handling companies had frozen their elevation tariffs and the federal government had frozen grain freight rates when initial prices were dropped by 20% for the 1986-87 crop. At 1986-87 prices, the direct costs to the farmer would be equivalent to almost one-quarter of the receipts received by farmers.

The federal government has announced that the scheduled 39% increase in grain freight rates scheduled for August 1987 will be kept to a 6% increase because of an injection of \$64 million of scarce government resources. Recently negotiated lake transport tariffs will be slightly lower at \$11.25 per tonne than last year's. Nevertheless, 1987-88 grain prices are on average 20% lower than last year's and handling and transportation costs will increase, even if only slightly. The prices paid by farmers for handling and transportation will be equivalent to an even larger proportion of their revenue. Moreover, charges for seed, pesticides, fertilizers and machinery must also be deducted.

A number of specific issues of concern to farmers were brought to the Committee's attention which are discussed in the following sections.

TABLE 4.1

ESTIMATED COSTS OF MOVING WHEAT FROM A MID-PRAIRIE POINT TO EXPORT POSITION

COSTS	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
DOLLARS PER TONNE										
PRIMARY ELEVATOR										
ELEVATION ¹	3.72	4.09	4.50	4.50	5.30	5.83	6.18	6.27	6.40	
REMOVAL OF DOCKAGE	.55	.92	.92	.92	1.00	1.00	1.06	1.11	1.13	1.67
SHRINKAGE	.29	.30	.40	.49	.56	.50	.48	.48	.47	.40
CARRYING CHARGES ²	1.98	2.08	3.53	5.37	7.21	5.93	4.39	4.36	6.25	
RAILWAY FREIGHT	5.07	5.07	5.07	5.07	5.07	5.07	5.07	5.64	8.08	6.30
MARKETING										
INTEREST, BANK & OTHER CHARGES ²	1.02	2.14	1.97	1.52	3.43	1.48	.32	.87	1.76	1.77
CANADIAN WHEAT BOARD ADMINISTRATIVE COSTS ²	.76	.90	1.20	1.14	.80	.77	.78	.86	1.34	1.35
TERMINAL POSITION										
STORAGE ²	.55	.46	.54	.67	.55	.85	.89	.92	1.99	2.03
FOBBING CHARGES:										
-VIA ST. LAWRENCE PORTS ³	2.58	2.64	3.01	3.48	3.77	4.02	4.67	4.90	5.01	5.24
-VIA PACIFIC SEABOARD ⁴	2.65	2.70	3.12	3.42	3.82	4.37	4.74	4.98	5.08	5.23
LAKE TRANSPORTATION ⁵	8.60	9.19	10.21	12.13	14.40	15.82	16.90	17.31	18.32	19.77
TRANSFER POSITION										
STORAGE	.74	.55	.43	.36	.40	.53	.69	.58	1.03	1.45
FOBBING CHARGES ⁶	.93	1.03	1.10	1.18	1.30	1.38	1.47	1.56	1.60	2.40
TOTAL										
-VIA ST. LAWRENCE PORTS	26.79	29.37	32.88	36.83	43.79	43.18	42.90	44.86	53.38	54.31
-VIA PACIFIC SEABOARD	16.59	18.66	21.25	23.10	27.74	25.80	23.91	25.49	32.50	30.68

¹ FILED TARIFF FOR RECEIVING, ELEVATING AND LOADING.

² OPERATING COSTS AS REPORTED IN THE CANADIAN WHEAT BOARD *ANNUAL REPORT* WERE DIVIDED BY THE TOTAL TONNES SOLD DURING THE RESPECTIVE POOL PERIOD. 1985/86 FIGURES ARE ESTIMATED.

³ INCLUDES ELEVATION, OUTWARD WEIGHING AND INSPECTION, TERMINAL ELEVATOR RECEIPT CANCELLATION AND LAKE SHIPPERS' CHARGES.

⁴ INCLUDES ELEVATION, OUTWARD WEIGHING AND INSPECTION, TERMINAL ELEVATOR RECEIPT CANCELLATION, B.C. SHIPPERS' CHARGES, SUPERINTENDENCE, WHARFAGE AND FORWARDING BROKERAGE CHARGES.

⁵ INCLUDES LAKE FREIGHT, LAKE BROKERAGE AND INSURANCE, ST. LAWRENCE SEAWAY AND WELLAND CANAL TOLLS, INWARD ELEVATION AND AGENT'S COMMISSION.

⁶ INCLUDES ELEVATION, OUTWARD INSPECTION AND WEIGHING, SUPERINTENDENCE, WHARFAGE AND FORWARDING BROKERAGE CHARGES.

Source: Canada Grains Council, *Canadian Grains Industry Statistical Handbook 86*, Winnipeg 1986, p. 198.

Handling charges represent almost one-half of the cost of shipping grain. These charges include elevation, removal of dockage, shrinkage and carrying charges, as well as storage and final loading (fobbing). As mentioned above, in 1986 most grain handling companies chose to freeze their primary elevation charges. For 1987 the companies have announced that handling charges at terminal elevators will not increase for the beginning of the 1987-88 crop year. Companies have recognized that although their own costs continue to rise, farmers cannot afford the extra expense. Decisions on tariffs at both primary and terminal elevators must be made by grain handlers by July 31, 1987 and filed with the Canadian Grain Commission. The Committee believes that the needs of farmers are clearly evident and hopes that the companies will make their decision accordingly.

4.1 The Committee urges all grain handling companies to freeze handling charges for the 1987-88 crop year at primary transfer and terminal elevators.

Witnesses expressed the desire of farmers to have costs associated with country elevation shown on grain tickets. While some grain handling companies at present include this information on a per tonne basis, the Committee believes that farmers would like to have shown the actual charges for the various services provided at the elevator. As Mr. Bill Duke, President of the WCWGA, stated, this would help farmers to "... begin to understand the true costs of grain handling in transportation ... it is a cost that ... should be reflected on the form" (Issue 10:24, 4-3-87).

With modern computer technology the Committee understands that it is possible to put in place a system which could determine and print these charges based on the actual amount of grain shipped by a farmer. Such charges, plus those occurring later in the shipping process, such as administration, transportation, demurrage, etc., could be shown on a statement accompanying the final payment cheque from the Canadian Wheat Board (CWB). The Committee does understand that the provision of this information would cause the companies and/or the CWB to incur additional expenses which would at some point have to be passed on to the farmer.

4.2 The Committee recommends that the Canadian Wheat Board in consultation with farmers examine the cost/benefit of providing detailed handling and shipping charge information on final payment cheques, and provide as much information as is economically feasible on these cheques.

B. Producer Cars

It is clear to the Committee that for some producers, particularly producers of non-Board grains, the use of producer cars can cut costs. By loading and shipping producer cars, producers can avoid elevation tariffs and, at times, arrange to receive better prices at export points. The concept of the producer car as expressed in the 1970 *Canada Grain Act*, section 71 is:

- (1) A producer of grain who has grain of sufficient quantity to fill a railway car, that he may lawfully deliver to a railway company for carriage to a terminal elevator ... may apply to the Commission for a railway car to receive and to carry the grain.

Producer cars can save farmers significant amounts of money. Shippers of producer cars of non-Board grains and oilseeds are not at present required to pay any elevation, storage or documentation fees whatsoever. Thus the price which producers are paid for the grain or oilseeds is theirs to pocket. This can represent a saving of up to \$1,200 on a 90-tonne hopper car of canola.

Board grains shipped in producer cars are subject to a fee of \$150.23 for documentation. As well, they are subject to carrying charges (for example, for wheat in 1985-86, \$4.23 per tonne, including storage and interest costs) which are applied to all Board grains plus a small charge per tonne for cleaning. At the moment even with these charges a producer could save \$400 to \$500 per 90-tonne car.

The Canadian Wheat Board automatically calculates and pays a storage and interest fee to the elevator companies. Should the storage and interest payments be remitted to the producer rather than to the elevator company, a producer shipper of wheat could save an additional \$360 on a 90-tonne car.

The Committee fully recognizes and endorses the fundamental right of grain producers to use producer cars. It also believes that only those charges accruing to producer cars should be levied. As farmers using producer cars do not make use of the elevator facilities, they should not be expected to pay for elevation or for storage.

The Committee understands that the Canadian Wheat Board has recognized this problem, which is largely one of farmers shipping Board grains (wheat, oats and barley) and the Board has recommended to the Minister for the Canadian Wheat Board that the *Canadian Wheat Board Act* be amended to allow some portion of the storage and interest costs now remitted by the CWB to the elevator companies be paid directly to the shipper of the producer car.

4.3 The Committee recommends that the *Canadian Wheat Board Act* be amended to allow a portion of storage and interest charges to be remitted by the CWB directly to those shipping grains in producer cars.

At the same time the Committee agrees with the Manitoba Farm Business Association that: "A freer access to producer cars would encourage grain handling companies to streamline their services and only invest in points that have the volume of grain necessary to compete with producer cars" (Issue 7:7, 4-2-87). The Committee is therefore very interested in the discussion on variable rates which arose during its hearings.

C. Variable Rates

The variable rates issue, stated simply, is that of reducing system costs through the introduction of efficiency measures in the grain transportation and handling process. The Committee believes that there are three basic aspects: efficiency and cost saving; fairness and equity of accessibility to farmers; and the ability of the individual producer to make financial decisions on what is best for his operation. Witnesses who appeared before the Committee expressed views on all sides of the issue and brought to bear a number of important points.

The Alberta Wheat Pool stated in response to questioning that the concept of variable rates was acceptable but that they must be applied uniformly across the system on both Canadian National (CN) and Canadian Pacific (CP) rail lines to all locations with the capacity for 18-car loadings and not only to specific locations. Also a net benefit to the producer must be proven for the \$1.50 per tonne rate reduction to be acceptable. Other witnesses stated clearly that the \$2 million saving which CN claimed would be made under variable rates in its submission to the Canadian Transport Commission (CTC) had not been proven to their satisfaction.

The National Farmers Union expressed concern that branch rail lines would be rendered uneconomic as variable rates would encourage the centralization of grain deliveries. This would mean that service to farmers from elevator companies would be reduced; farmers would have to truck grain farther at greater personal expense; and, ultimately, small communities would wither as the "glue"

that a local elevator provides in holding them together would be gone. The United Grain Growers (UGG) told the Committee that most farmers are in favour of lower freight rates at efficient elevator points. With variable rates, the farmer would make the ultimate decision on whether the savings per tonne available through the utilization of efficient elevator points and unit trains would make it worth while to ship through the designated points.

In April 1987, the CTC decided in favour of variable rates for a one-year trial on *all* CN lines that can meet the conditions specified, the most important of which from the farmers' point of view is the capability to load 18 cars in a continuous string. Variable rates as approved by the CTC, should they be continued, could encourage grain handling companies to upgrade their facilities to handle 18-car strings and farmers to deliver to these points so that there would be easier assembly of these unit trains. The elevator system is already being rationalized, the UGG told the CTC, because of economics and not because of lower freight rates. It is widely recognized that the unit train is the most efficient method of moving grain. As the Committee was reminded, it has been estimated that in 1981 a shortening by one day of the grain car cycle could result in a saving of \$70 million. If the widespread use of unit trains could cut present grain car cycles in half, the saving would be considerable. The Committee notes that if this is indeed the case then the widespread use of producer cars could place an additional cost on the system.

The CTC stated, "In our view, the 1987-88 crop year will afford all interested parties the opportunity to monitor the impacts of lower freight rates and no doubt any salient results will be drawn to the attention of the authorities ..." (Canadian Transport Commission Railway Transport Committee, *Decision*, April 10, 1987, p. 33).

The Committee has an interest in any action which will reduce the costs to the farmer. Should variable rates be adopted system-wide, the Committee would hope that the savings would be passed on to those shipping at points offering the lower rate and not simply to the elevator company.

The Committee will be following the 1987-88 variable rate experiment with interest and it will be anxious to see if the saving is realized and how it is passed on to the farmer.

D. Branch Line Abandonment

Branch line abandonment is a very controversial issue. The objections of the National Farmers Union to variable rates have already been mentioned. Prairie Pools Inc. told the Committee that "... any further rationalization of the country elevator system must be based on the evaluation of the impact on the farmers' total cost — that is, on producer costs from the farm yard to the port" (Issue 20:5, 9-4-87).

These arguments go beyond variable rates and speak directly to the rationalization of the rail system and branch line abandonment. The removal of a branch line, and thus an elevator, can indeed affect the surrounding community. It can also affect the financial position of individual farmers, who must truck their grain farther from home. However, maintaining grain-dependent lines that represent a financial cost rather than a benefit to the entire system can no longer be afforded in these times of restraint.

As the system moves towards greater efficiency, with increased use of unit trains, variable rates and other such measures, inefficient branch lines become liabilities, the cost of which must be averaged out over the total cost of rail transport and paid, at least in part, by grain producers. An *ad hoc* Senior Grain Transportation Committee, representing all sectors of the grain industry (farmers, farmer-owned grain companies, private trade, the railways and organized labour) has determined that the elimination of the most expensive lines could save farmers more than \$3 per tonne in freight rates by 1991-92. For

many producers this amount could make the difference not just between breaking even and making a profit but between breaking even and taking a loss.

This Committee agrees with the Senior Grain Transportation Committee that for farmers who have traditionally delivered grain to points on the 2,000 miles of branch lines identified, abandonment may cause some hardship.

- 4.4 The Committee urges the Minister of Transport to carefully consider the findings of the Senior Grain Transportation Committee concerning branch line abandonment.**
- 4.5 Should it be determined that compensation is warranted the Committee recommends that compensation be paid directly from the savings made from abandoned branch lines.**
- 4.6 The Committee further recommends that the compensation be paid directly to those deemed to have been hurt by branch line abandonment.**

E. Grain Cleaning

A number of witnesses, including the Government of Saskatchewan, presented positions on grain cleaning on the Prairies to the Committee.

The issue of shipping clean grain to export position, avoiding transportation costs for dockage and providing value-added industry to the Prairies, has been around for some time. The recent grain-handlers' strike at Thunder Bay proved that, at least for moderate volumes of grain, cleaning on the Prairies was possible. During the strike, 185,000 tonnes of grain were cleaned at terminal elevators and shipped as clean grain to point of export. The cost of cleaning at inland terminals was estimated to be similar to the cost of cleaning at export position. Screenings were also available at a less expensive cost as feed for livestock producers on the Prairies.

On this issue, as on others, there are varying points of view. The Government of Saskatchewan sees the advantages of cleaning on the Prairies. "Currently Saskatchewan grain for export is cleaned primarily at export terminals. The cleanings are then pelletized and occasionally some are returned to Saskatchewan to be used as livestock feed . . . this cleaning at export position is not an efficient practice and it discourages potential value-added production in Saskatchewan. Cleaning in Saskatchewan would also provide a valuable supply of feed in the form of pelletized screenings" (Brief to the House of Commons Standing Committee on Agriculture, May 13, 1987, p. 11-12).

If grain is delivered directly to an inland terminal where it is cleaned, one elevation charge is saved and country elevator storage charges can be significantly reduced. Added to that, the use of dry bulk handling terminals at the export points rather than major grain terminals could save farmers approximately \$6.00 per tonne in handling charges. The extra \$30 dollars per tonne cost of shipping uncleaned grain could be saved.

A representative of Prairie Pools Inc. presented the Committee with another side of the story: the cost of developing additional cleaning facilities on the Prairies, "... farmers have already made the investment at the port position, and it is a very substantial investment. If we were to turn around and start providing the same kind of system on the Prairies, farmers would have to pay for that system to do it on the Prairies" (Issue 20:12, 9-4-87).

Prairie Pools also pointed out that a high and consistent standard of quality based in part on uniformly clean grain has been one of Canadian grain farmers' main selling features. If grain were to be cleaned at a number of small Prairie points, these uniform standards would be difficult to maintain.

The Committee is aware that a report on grain cleaning on the Prairies, prepared by J. Liebfried, former Commissioner of the Canadian Wheat Board, has been submitted to the Honourable Charles Mayer, Minister for the Canadian Wheat Board. The report reviews grain cleaning on the Prairies during the grain handling strike at Thunder Bay and examines the cost and the benefit.

4.7 The Committee urges the Minister for the Canadian Wheat Board to release the report on grain cleaning to assist all concerned to make informed judgments on the cost and benefit of such cleaning.

FERTILIZER PRICING

A. Canadian Price Competitiveness

During the Committee's hearings a number of questions were raised about the various factors which bear on price and price-setting of fertilizer in Canada. Fertilizer prices doubled between 1974 and 1981, during the period of the two oil price shocks, but since 1981 they have generally declined except for a brief upsurge in 1984 (Figure 2.14), and they are currently 15% below their 1981 peak. Evidence was presented to the effect that taxes on energy sources used in the production of fertilizer represented a production cost component to grain producers. Several alternatives of oil energy taxes were remedies suggested. There also exists the perception that over-regulation of natural gas should bring about appreciable reduction in the price of fertilizer.

The price of fertilizer as a commodity is established by supply and demand relationships at the international level. Like any other commodity, it sells at whatever price it can command in a market given the competitive forces at work. The hearings confirmed that this country was a major player in the fertilizer market except as a producer of potash, of which Canada produces about 30% of world supply. As a major producer of a high quality product, this country is said to be a price setter for potash. From Saskatchewan, the location of the potash mines, production is shipped to Canadian, U.S. and offshore markets. The Canadian share of the U.S. potash market, with a five-year cost over U.S. competitors, is currently 15%. Canada's strong competitive position has ramifications for potash entering the U.S.; this issue is discussed under Section C. There is presently a surplus of potash in world markets.

Canada has no indigenous elements supplier of phosphate rock, the critical major fertilizer commodity. Canadian phosphate producers now find it cheaper to bring in the finished product from Florida and North Carolina, the source of North American phosphate rock, than produce it here. There have been difficulties for this portion of the fertilizer industry which has not had three per cent since the east and west in the west since over the past three years. According to a Canadian Fertilizer Institute spokesman, this is because, based on current transportation costs, the local Canadian industry is unable to compete against the large integrated producers in Florida and North Carolina.

We think fertilizer companies of Canada dump their excess production into the United States at reduced prices, and the farmers who are fortunate enough to live along the American border are usually able to access cheaper fertilizer prices from their American friends than from Canadian sources. We hope that can be addressed and corrected (Jack Penner, President, Keystone Agricultural Producers, Inc., Issue 17:7, 31-3-87).

FERTILIZER PRICING

A. Canadian Price Competitiveness

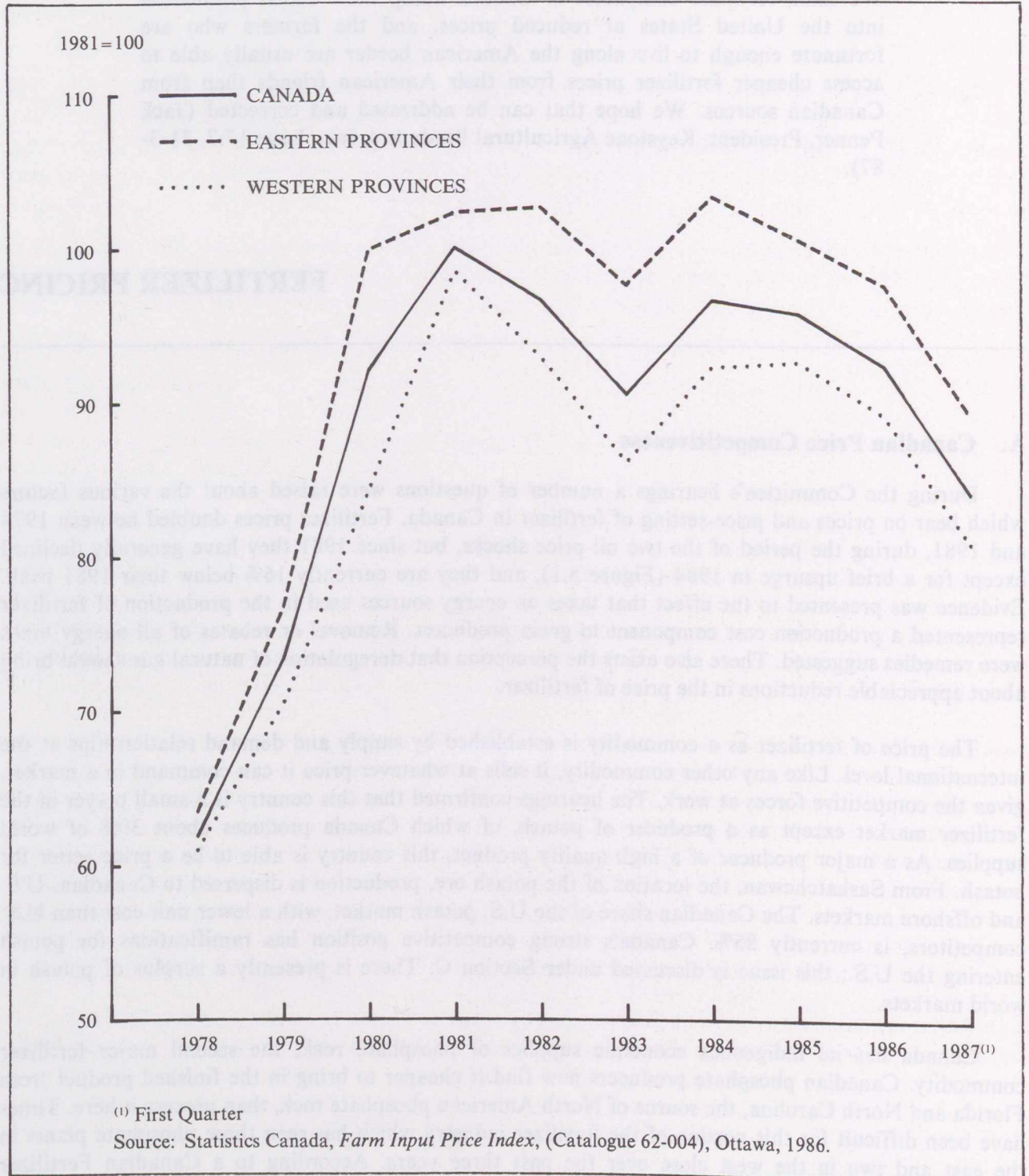
During the Committee's hearings a number of questions were raised about the various factors which bear on prices and price-setting of fertilizer in Canada. Fertilizer prices doubled between 1974 and 1981, during the period of the two oil price shocks, but since 1981 they have generally declined except for a brief upsurge in 1984 (Figure 5.1), and they are currently 16% below their 1981 peak. Evidence was presented to the effect that taxes on energy sources used in the production of fertilizer represented a production cost component to grain producers. Removal or rebates of all energy taxes were remedies suggested. There also exists the perception that deregulation of natural gas should bring about appreciable reductions in the price of fertilizer.

The price of fertilizer as a commodity is established by supply and demand relationships at the international level. Like any other commodity, it sells at whatever price it can command in a market, given the competitive forces at work. The hearings confirmed that this country is a small player in the fertilizer market except as a producer of potash, of which Canada produces about 30% of world supplies. As a major producer of a high quality product, this country is able to be a price setter for potash. From Saskatchewan, the location of the potash ore, production is dispersed to Canadian, U.S. and offshore markets. The Canadian share of the U.S. potash market, with a lower unit cost than U.S. competitors, is currently 85%. Canada's strong competitive position has ramifications for potash entering the U.S.; this issue is discussed under Section C. There is presently a surplus of potash in world markets.

Canada has no indigenous economic supplies of phosphate rock, the second major fertilizer commodity. Canadian phosphate producers now find it cheaper to bring in the finished product from Florida and North Carolina, the source of North American phosphate rock, than process it here. Times have been difficult for this portion of the fertilizer industry which has seen three phosphate plants in the east and two in the west close over the past three years. According to a Canadian Fertilizer Institute spokesperson, this is because, based on current transportation costs, the small Canadian sector is unable to compete against the large integrated producers in Florida and North Carolina.

FIGURE 5.1

SECOND QUARTER INDICES OF FERTILIZER PRICES
1978 TO 1987



The third segment of the fertilizer industry is nitrogen. Nitrogen from the air is combined with hydrogen under pressure to make ammonia, the building block for other nitrogen fertilizers. Natural gas is the major source of energy and hydrogen for ammonia production. Nitrogen fertilizers include liquid ammonia, urea, ammonium sulphate, ammonium nitrate and ammonium phosphate. The nitrogen component expanded in Alberta and Ontario in the 1970s and 1980s and world-class plants were built. Although a number of plants are presently idle, the Committee was told that this segment of the industry has been able to operate at a much higher level of design capacity than has the phosphate sector.

Nitrogen expansion was based on the premise of a continued favourable natural gas cost advantage which historically western Canadian producers have experienced. Although deregulation has contributed to a 25% reduction in the price of natural gas over the past year, sharply declining energy prices world-wide have removed the advantage Canadian nitrogen fertilizer producers hoped to enjoy in world markets.

It was not only the Canadian nitrogen industry which expanded during the same period. There was a general increase in fertilizer capacity world-wide so that overcapacity coupled with weak grain markets and reduced demand has caused a recession in the entire Canadian fertilizer industry.

The Canadian Fertilizer Institute, which collects information on the financial situation of the fertilizer industry each year, provided the Committee with a reasonably complete financial picture. Annual sales were \$1.7 billion in 1986, of which \$821 million worth was consumed in domestic markets and \$858 million worth was exported to the U.S. and offshore markets. For the second successive year, the industry has experienced a net-after-tax loss, which in 1986 amounted to \$124.9 million. All three segments registered decreased returns. In 1986, the number of employees in the basic fertilizer industry was 7,650, a decrease of about 350 from the previous year.

In an excess supply situation, selling prices of basic fertilizer are at historically low levels both in the U.S. and Canada relative to their cost of production, according to the industry. Without trade barriers, when domestic retail prices are not competitive, fertilizer can be imported as basic materials or finished mixed fertilizer at prevailing world prices. A farmer has the option of purchasing his material domestically or importing from U.S. sources. Figures provided by the industry for April 1986 showed some variations in retail price between western Canadian and northern U.S. locations by as much as \$20 per tonne. Urea and monoammonium phosphate were more expensive in Manitoba than in the U.S. Northern Plain states while these products were reported as less expensive in Saskatchewan than they were in markets directly south in the U.S. The most noticeable differences were retail prices for anhydrous ammonia which in April 1986 were higher in Alberta, Saskatchewan and Manitoba than they were in U.S. states just south of the border. In Manitoba, anhydrous ammonia was \$361 per metric tonne in April 1986 as compared to \$324 per metric tonne in the Northern Plain region of the U.S. Preliminary prices for 1987 show that although fertilizer prices are in some instances higher in Canada than in the U.S., there is a general downward trend on both sides of the border which in the case of anhydrous ammonia registered about a 9% reduction.

About 60% of North American ammonia production capacity is located in the area of the U.S., adjacent to the Gulf of Mexico. Imports also tend to enter the U.S. in this region, through the port of New Orleans. This makes the area a North American fertilizer price leader so that prices in any area tend to be based on the U.S. Gulf price, plus transport costs from the Gulf. Competition from these U.S. products moving through the Mississippi system tends to hold Canadian prairie prices to the U.S. Gulf price plus transport costs.

The Committee believes that better information about prices will enable farmers to shop around and procure the best buy in fertilizer materials. In a later section, the Committee makes a general recommendation about price monitoring and dissemination of price information.

B. The Role of Natural Gas in Fertilizer Prices

1. Deregulation of Natural Gas Prices

As the industry pointed out to the Committee in its brief, because of the large capital investment in basic nitrogen and phosphate plants and potash mines, producers have historically tended to keep operating until variable costs exceed net selling prices. When this point is reached and cash costs exceed unit selling prices, plants have been shut down on a temporary or permanent basis which is presently the case.

For the nitrogen fertilizers like urea, ammonium nitrate, ammonium sulphate and other derivatives, natural gas is the feedstock and makes up 30% to 50% of these variable production costs. In 1985, approximately 10% of the natural gas consumed in Canada was used in the production of basic fertilizer materials. The nitrogen segment of the industry is very dependent on the cost advantage of its natural gas supplies to remain competitive. Alberta has 70% of Canada's nitrogen fertilizer capacity, with other facilities in B.C., Manitoba and Ontario.

Historically, Alberta producers have had a production cost advantage over U.S. producers and eastern Canadian producers because they have been able to negotiate favourable long-term discount contracts for natural gas, at prices lower than U.S. gas prices. Since the mid-1970s, before deregulation changed the whole pricing structure, fertilizer manufacturers were also guaranteed a price on natural gas by the Government of Alberta under the *Natural Gas Rebates Act*, that would be no more than 65% of the border price.

This advantageous position was eroded, however, when U.S. prices were deregulated just before the Western Accord introduced a market-oriented pricing regime and relaxed export controls. Coupled with gas surpluses in the U.S. which may last into the early 1990s, lower prices there have limited the Canadian competitive position.

Deregulation has been particularly beneficial to the eastern fertilizer producers who are no longer held to the Toronto reference price and who now negotiate directly with western Canadian natural gas producers for their gas.

Deregulation has in fact contributed to a 25% reduction in the export price of Canadian natural gas over the past year; however, this price is still 35% higher than the U.S. Texas Gulf price. This means that while Canada's natural gas price is down, the impact has not been enough to offer a cost advantage over Canada's fertilizer competitors. Just how natural gas prices affect fertilizer prices raised questions before the Committee: "I guess the comparison I would have to make is to say that the price of gas went down and the price of fertilizer should have gone down and it did. But if the price of natural gas were to go down to a producer east of Alberta today, I expect the price of fertilizer to go down would be like saying that if the price of diesel fuel to the farmer goes down today, the price of grain should go down. We are in the same situation. We are producing a product from which we cannot recover our full costs. Reductions in the price of gas due to deregulation was simply a saviour when it came along. I think testimony to the fact that it was needed is that a couple of producers outside of Alberta subsequent to deregulation have stopped producing fertilizer. So the deregulatory effect was not enough to underpin the industry" (Issue 23:15,16, 29-4-87).

The industry told the Committee that in the past year: "... export markets have reached the point where we (the fertilizer industry) could not, in fact recover our cash costs. We did not make the number of sales simply because it would have cost money. It would have realized a cash loss" (Issue 23:23, 29-4-87).

2. Taxes as a Cost Component of Natural Gas

Farm inputs, such as fertilizer, are generally exempt from sales taxes and import duties except for provincial royalties and federal fuel taxes, including those on the wellhead price of crude oil and natural gas. (Fuel taxes and fuel tax rebates are dealt with under a separate heading.)

Under the 1980 National Energy Program (NEP) a number of taxes had different effects on natural gas prices, depending on the region and the ability of gas producers to pass taxes on to their customers.

Since deregulation of natural gas in November 1986, however, Canadian prices are now determined in the marketplace and domestic market buyers of natural gas are free to negotiate prices. The only levies left on natural gas are the provincial royalties. In Alberta, the current provincial share of revenue at the wellhead is about 20% which translates to approximately 4% to 6% at the retail level. The Canadian Fertilizer Institute estimated for the Committee that the Alberta royalty on natural gas probably adds \$10 per tonne to the cost of ammonia (the current price of ammonia in Alberta is \$400 per tonne). There is a perception that complete removal of all Alberta Government royalties could save farmers about 2.5% of their nitrogen fertilizer costs. With competitively determined prices, however, sellers are more likely to absorb these costs in order to stay competitive so that they are no longer passed on to consumers through a price increase and must come out of profits.

Since the small Canadian industry is struggling to survive against increasing external competition, the Committee supports measures to help keep it healthy. A domestic industry helps ensure security of supply and furtherance of domestic technology. A heavy tax burden would further erode the industry's already deteriorating position.

5.1 The Committee therefore recommends that no new taxes be imposed on the raw materials or energy components used in the manufacture of fertilizer.

C. Fertilizer Trade

There are basically no protective tariffs or trade restrictions on fertilizer. The Canadian fertilizer industry is international in scope and subject to global supply and demand factors which govern year-to-year prices and performance.

In 1986, exports accounted for 40% of nitrogen sales and 92% of potash sales. Exports include both the U.S. and offshore and have become important in Canada's trade balance, contributing \$2.4 billion in that year.

World demand for fertilizer products is tied closely to the prosperity of the agricultural sector and so the present depressed situation is also one of oversupply. The European Economic Community, Australia and the U.S. have charged the East Bloc countries with dumping urea at less than fair market value. One of Canada's largest fertilizer producers is also launching an anti-dumping action against East European and Soviet urea imports into Canada. For the fertilizer year ending June 1986, total Canadian imports of urea were 204,244 tonnes, down from the 1985 level of 219,396 tonnes.

At the same time, some U.S. potash companies are seeking a 43% tariff on Canadian potash on the grounds that the Canadian product is being dumped on the U.S. market at well below the cost of production. The Canadian potash companies claim that the supply situation is accounting for their increased market share and price advantage rather than any conscious attempt to squeeze out an unprofitable segment of the U.S. potash industry situated in New Mexico. In 1984 the U.S. potash industry lost anti-dumping cases it had filed against Israel and the Soviet Union.

Some members of the Canadian Fertilizer Institute, the main fertilizer trade association, told the Committee that they believe fertilizer is one Canadian product which has competed reasonably well on an international basis. The industry accepts free trade competition and will even import to keep the price down. Nevertheless, Canadian Industries Limited Inc. (C-I-L Inc.) expressed its concerns to the Committee about the prices of nitrogen products entering the Canadian market, which the firm considers threaten the survival of eastern Canadian urea production. C-I-L's plant is now the sole manufacturer of urea in eastern Canada, two other urea plants there having already closed. Revenue Canada is proceeding with an anti-dumping investigation against imports of solid urea from East Germany and the Soviet Union that are destined for use in eastern Canada. C-I-L Inc. claims the imports have depressed the price of its own urea below the cost of production. The Department has 90 days to determine if the industry has been injured by the imports.

It is apparent that the fertilizer sector is experiencing a downswing in demand and price. The Committee is optimistic that conditions of over-capacity will correct themselves when farm economics improve. In the meantime, the industry must weather the present highly competitive environment. Industry spokespeople indicated they were prepared to do this and were not seeking special government treatment at this time other than that to which they are entitled to seek under the *Special Import Measures Act* in terms of domestic redress concerning injurious imports. This is the procedure C-I-L Inc. is currently following in regard to the urea imports.

We have already seen that competition from abroad and from U.S. products tends to ameliorate Canadian fertilizer price levels. The Committee believes that the open border is advantageous to the farm community in the important Canada-U.S. trade which takes place in relation to fertilizer materials. The Committee agrees that fertilizers should continue to enjoy unrestricted access to world markets with no restrictive trade barriers or tariffs.

As long as the arbitrage of fuels from the United States is allowed to take place, farmers will have some leverage to force distributors to price competitively. When you live in the southern Prairies, you can see the effect of that (Bill Duke, President, Western Canadian Wheat Growers Association, Issue 10:9, 4-3-87).

FARM FUELS

A. Fuel Rebates

About half a dozen farm organizations commented on the subject of farm fuels at the hearings. Canadian farmers are dependent on petroleum products, especially diesel fuel and gasoline which make up about 65% of their total farm energy expenditures. Some concerns were expressed about taxes on farm fuels but the majority of the witnesses commended the federal government's actions to rebate federal taxes on farm fuels to farmers and they supported maintenance of the rebate program.

Since the mid-1970s farmers have been eligible for a rebate on the federal excise tax on gasoline and as of 1984, the federal government has made an effort to rebate most or all of the taxes which are applied against farm fuels.

The rebates, in effect until January 1, 1988, now allow farmers a 9 cents a litre rebate of the federal sales and excise taxes on purchases of gasoline and 7.5 cents a litre on diesel fuel for off-highway use in commercial activities. From May 1986 to December 1987, the period of the most recent increase, it is estimated that the federal fuel rebate program will provide \$180 million in benefits to farmers.

The rebates virtually offset all taxes on gasoline while the present rebate of the federal sales tax on diesel fuel is slightly higher than the federal tax as shown in Table 6.1. This situation can change for, although the excise tax and the two tax rebates are at a fixed rate, the sales tax is adjusted quarterly based on gasoline and diesel price indices. The Table provides a snapshot in time of prices paid across Canada by farmers for regular gasoline and diesel fuel in comparison to provincial retail prices.

All provinces have retail sales tax on gasoline and petroleum products including Alberta and Saskatchewan who are now in the process of reintroducing them.

Tax rates vary by province; most provinces apply *ad valorem* taxes while others use a fixed rate. Alberta and Saskatchewan have provincial rebate programs while other provinces have tax exemptions for farmers. Manitoba and British Columbia are the only provinces which have taxes higher than farm exemptions. In the case of Manitoba, this affects only diesel fuel. Taxes in B.C. are higher than exemptions for both gasoline and diesel fuel, so farmers must support the difference.

The general rule in tax treatment of farm inputs is that taxable items clearly classified as production inputs are exempted from federal and provincial sales taxes and import duties. Items whose potential use is unclear are subject to sales tax. Thus hydraulic oil is included whereas engine oil is excluded.

Fuel rebates are consistent with this philosophy. As the United Grain Growers expressed it: "Once a farmer has achieved peak operating efficiency, his operations (sic) for reducing fuel taxes are nil. Fuel taxes therefore represent an uncontrollable input cost that cannot be shouldered during these tough economic times" (Issue 16:9, 26-3-87).

TABLE 6.1
PRICES PAID BY FARMERS FOR GASOLINE AND DIESEL FUEL,
BY PROVINCE, MAY 1987

	B.C.	Alb.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.	Average
(all figures in cents per litre)											
Regular Gasoline											
Retail price excluding taxes	32.06	28.65	30.9	28.75	27.2	30.05	29.05	30.35	32.94	33.4	30.34
Taxes											
Federal sales tax	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55	
Federal excise tax	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	
Provincial tax	9.09	—	—	8.9	8.3	14.4	7.7	8.9	8.8	9.8	
Retail price including taxes	50.2	37.7	39.95	46.7	44.55	53.5	45.8	48.3	50.79	52.25	46.97
Exemptions and rebates											
Federal sales tax	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	
Federal excise tax ^(a)	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	
Provincial rebate	6.61	14.0 ^(c)	2.0 ^(c)	8.9	8.3	14.4	7.7	8.9	8.8	9.8	
Net Farm Price ^(b)	34.59	14.7	28.95	28.8	27.25	30.1	29.1	30.4	32.99	33.45	29.03
Diesel Fuel											
Retail price excluding taxes	29.43	30.56	32.1	29.71	30.0	31.5	36.7	34.0	38.96	39.66	33.26
Taxes											
Federal sales tax	2.94	2.94	2.94	2.94	2.94	2.94	2.94	2.94	2.94	2.94	
Federal excise tax	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	
Provincial tax	7.53	—	—	9.9	9.9	12.45	8.3	9.3	10.7	12.1	
Retail price with taxes	43.9	37.5	39.04	46.55	46.84	50.89	51.94	50.24	56.6	58.7	48.22
Exemptions and Rebates											
Federal sales tax	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	
Federal excise tax	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	
Provincial rebate	5.05	14.0	2.0	7.5	9.9	12.45	8.3	9.3	10.7	12.1	
Net Farm Price ^(b)	31.35	16.0	29.54	31.55	29.44	30.94	36.14	33.44	38.4	39.1	31.59

^(a) Including the long-standing refund of the special 1.5 cents/litre tax on gasoline, which is allowed to all commercial users.

^(b) The price paid by farmers is calculated by subtracting exemptions and tax rebates from the retail price including taxes.

^(c) Alberta and Saskatchewan have provincial rebate programs. All other provinces have tax exemptions only.

Source: Energy, Mines and Resources, Oil Pricing and Market Analysis Division, by phone.

6.1 The Committee consequently recommends that fuel rebates should be maintained at a level to cover all increases in federal sales and excise taxes.

6.2 The Committee further believes that these rebates should be extended beyond December 1987 until economic conditions in the farm sector improve.

Some farmers have been hurt by a tax measure relating to the fuel rebates introduced in the February 1987 budget. The budget withdrew the provision which entitled wholesalers to hold tax-free inventories and to pay the tax on their sales at the end of the month following that in which the sale was made. As of March 1, 1987 the wholesale distributors must pay the tax at the time of purchase if from a domestic supplier or, in the case of imported fuel, when the product enters Canada. The immediate impact of the budget measure was to convert distributors' inventories to a tax-paid status and to require that future product purchases by distributors be made on a tax-paid basis. This squeezes the cashflow of the wholesalers and increases their credit needs. The major oil companies, who as refiners maintain their tax collection licences, gain a competitive advantage versus the independents.

Those distributors selling to farmers are issued registered vendor permits to permit them to extend the fuel tax rebate to those purchasers. Formerly, wholesalers submitted an audited statement once a month for sales to farmers who were entitled to a rebate. Wholesalers who elect to continue to make tax-exempt sales to farmers with bulk permits will now have to apply for a refund of tax already paid on such sales. This does not appear to change the procedures for farmers with bulk permits since they will continue to enjoy tax-exempt sales. Other farmers who customarily buy their fuel without permits designating them as farm purchasers will continue to apply for the rebate in the same manner as before.

Revenue Canada stated on May 25, 1987 before the House of Commons Standing Committee on Finance and Economic Affairs that it now takes about 11 days to process an application for a rebate. This is down from the previous average of 20 days, but the wait still represents a squeeze on cashflow for the independent fuel distributors.

The budget change revoking the tax collection licences of all independent distributors was made to curb the growing problem of motor fuel tax evasion. Revenue Canada claimed that alternatives such as special bonding arrangements were studied, but rejected as too complicated and less effective than revoking all licences. Evidence before the Finance and Economic Affairs Committee, however, suggests that the budget measure was too broad: it hurt all the honest distributors while trying to stop the activities of the few engaged in tax evasion. It also may harm the average consumer of motor fuel by leading to higher prices. What is perhaps most unsettling is that the broad measure does not get at many types of tax evasion; even with no licences for distributors, it is possible for a tanker of gasoline to be misrepresented at the border as solvent or heating fuel and evade taxes on motor fuel.

Independent distributors, who represent about 15% of the market for motor fuel, play an important role in keeping the gasoline market competitive and prices low for farmers. Serious cashflow difficulties could discourage these independents from importing product, thereby reducing competition facing the Canadian majors. The Committee believes the impact of the new tax measure on wholesalers should be monitored as should Revenue Canada's performance in making rebates.

6.3 The Committee therefore recommends that Revenue Canada work to continue improving its performance in remitting fuel rebates.

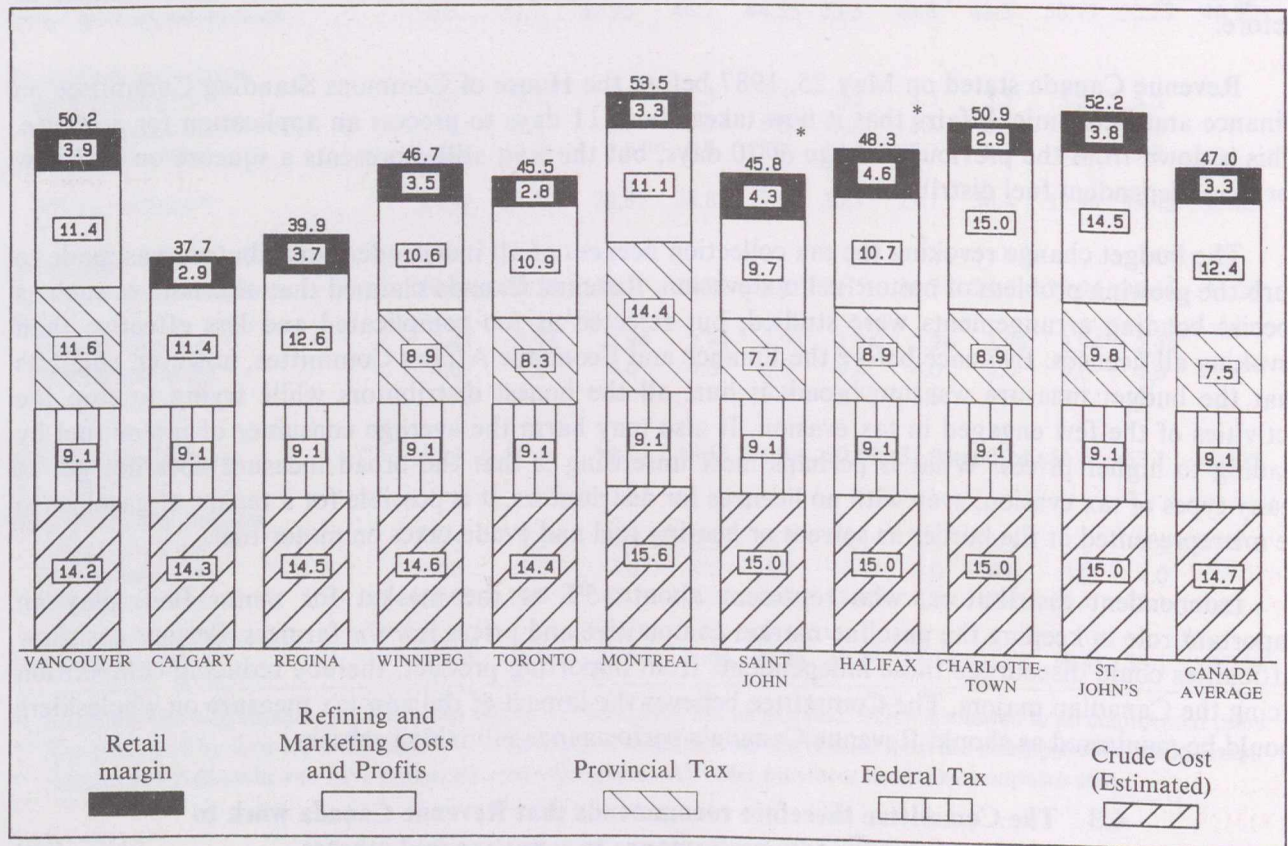
6.4 The Committee further recommends that Revenue Canada and the Department of Finance begin to evaluate the effectiveness of the February 1987 budget measure in combatting evasion of taxes with a view to replacing the provision should this evaluation and further study uncover a more suitable alternative.

B. Fuel Prices

As the Canadian Western Wheat Growers Association remarked, on-farm fuel costs have dropped quite substantially over recent years, not only because of fuel rebates but also because of lower world oil prices. Nevertheless, a couple of the western witnesses complained that pricing of farm fuels by distributors has become less competitive, with fewer volume discounts reported.

Figure 6.1, which is prepared by the Department of Energy, Mines and Resources (EMR) on a monthly basis, shows the variations in retail prices across the country. Since deregulation in June 1985, crude oil prices do not vary substantially across Canada. Taxes, refining and marketing costs, and profits account for provincial price differences. Prices reported are for specific urban centres and do not represent provincial averages. Prices can vary significantly from city to city within a province. Values observed are at a given time and represent a snapshot value that may not be representative of prices over a more extended period.

FIGURE 6.1
PUMP PRICE COMPONENTS FOR REGULAR LEADED GASOLINE
SELF-SERVE PUMP PRICES - MAY 26, 1987
 Cents/Litre



Source: Oil Pricing and Market Analysis Division, EMR.

Product and crude markets are, at times, quite independent. Over some periods, according to EMR, product prices can move in an opposite direction to crude prices. The oil companies maintain that prices vary in many cases because of local competitive marketing conditions, not because of crude price levels. They have been criticized for not passing on to consumers the full benefit of the 1986 drop in international oil prices.

The Government of Canada does not have jurisdiction over consumer prices of petroleum products but as recently as last year, it completed a five-year study into gasoline pricing practices. The Restrictive Trade Practices Commission in fact found no price collusion. In Manitoba, a commission of inquiry is expected to report shortly on variations in gasoline prices. Nova Scotia and P.E.I. regulate some aspects of product pricing and now Quebec has announced it will be controlling prices in outlying areas. Other provinces are similarly examining taking steps to regulate gasoline prices.

According to the United Grain Growers, the open border between Canada and the U.S. maintains a check on retailers' pricing practices. Pump prices tend to be lower along the U.S. border as a result of competition from the U.S. which has a greater number of oil companies, less regulation and lower taxes. As well, more independents operate near the border and can buy refined product at the cheaper location. In April 1987, while the crude oil prices were comparable in Canada and in the U.S., the differential between average Canadian and U.S. prices was 15.1 cents per litre, of which more than half was accounted for by higher taxes in Canada as shown in Figure 6.2. The bar charts illustrate the components of the average pump price in each country using the most current data available. Taxes are the average of all grades. The graph represents average urban retail prices for all grades of gasoline as published by Statistics Canada and the U.S. Department of Energy.

The two inquiries mentioned are only the latest by provincial and federal governments into alleged imperfections in the pricing of motor fuels, including gasoline and diesel fuel. The Committee believes such vigilance needs to be maintained and has made a general recommendation in Chapter 8 of this report that input prices including fuel prices should be monitored and reported.

C. Leaded Fuel Substitutes

The federal government intends to ban the use of leaded fuels after 1992. Unifarm argued, however, that the large number of self-propelled machines using leaded fuels would make it necessary to have leaded fuel available after that date.

In the aftermath of the Arab oil embargo in 1973 and the onset of real increases in energy prices, improving the productivity of existing energy inputs and finding lower-cost substitutes became important. There was a drop in total fuel usage and a noticeable shift from gasoline to diesel fuel.

Agriculture Canada estimates that between 1981 and 1986, the proportion of gasoline-powered tractors dropped from 34% of the inventory to 25%. Diesel tractors use up to 25% less fuel than gasoline tractors per working hour and offer considerable potential for fuel savings. Since 1981 all new tractor purchases, the most important farm machinery, have been diesel-powered as is most of the other new farm machinery, but there are still a number of older vehicles that are gasoline-powered. There will also continue to remain a preference for gasoline in the passenger vehicle market.

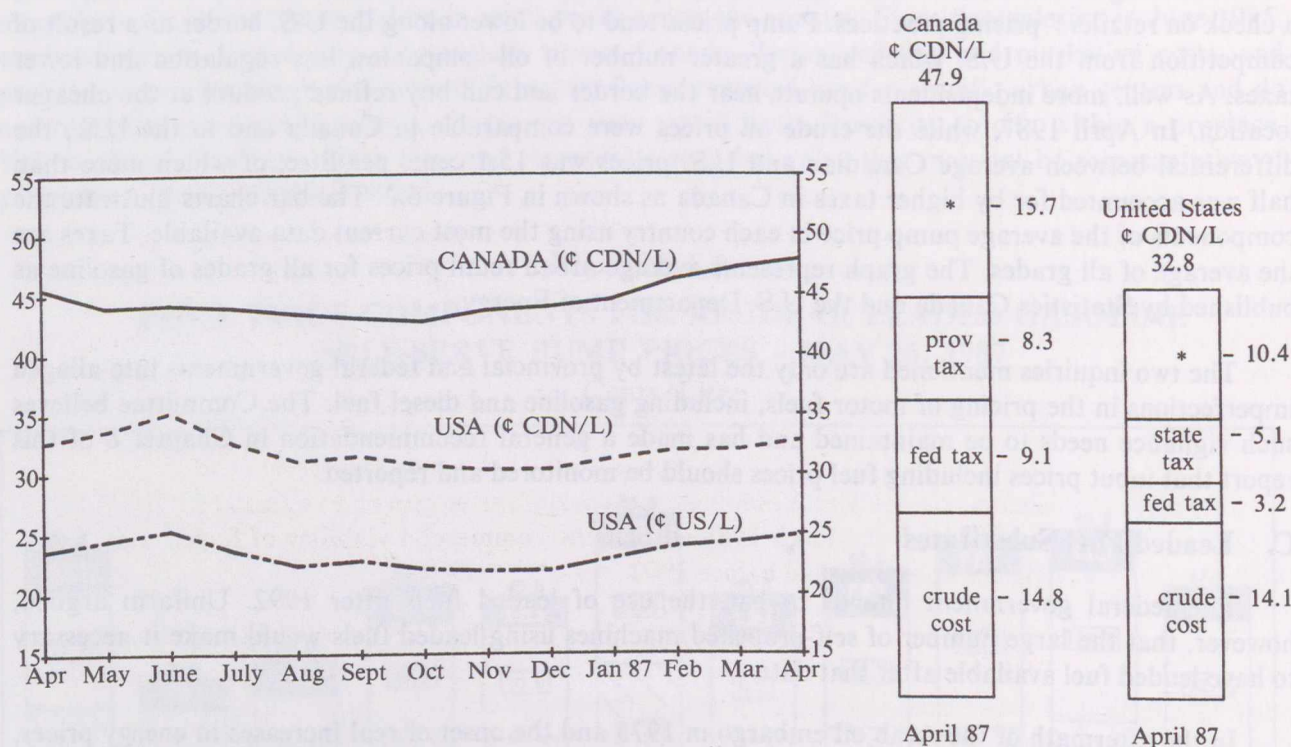
Prices of leaded gas used in this market have generally remained more favourable over those of unleaded gasoline, presenting no incentive to shift. Recently, provinces have been altering this pricing practice and in the recent budget the federal sales tax on leaded gasoline was raised as of April 1, 1987 to match that applicable to unleaded gasoline. The Committee is optimistic that as the price gap closes between these two fuels as unleaded gas takes a larger share of the market, there will be less opposition

to switching. While it is not possible to use leaded fuel in unleaded gasoline engines, the reverse is not the case. Most engines built to use leaded gas will accept unleaded gas with minor engine adjustments. Lead serves as a lubricant and under intense usage, levels below 0.026 grams per litre can present a risk of valve seat recession. From the early 1970s most gas engines have been designed with hardened valve seats to allow them to burn unleaded gasoline.

FIGURE 6.2

**CANADA vs U.S. — MOTOR GASOLINE
AVERAGE RETAIL PRICE — ALL GRADES**

Average Full-Serve and Self-Serve



* Refining and Marketing Costs and Profits.
Source: Oil Pricing and Market Analysis Division, EMR.

Lead is also used as an octane enhancer and so an appropriate gasoline additive must be found to meet the lead phasedown. Effective January 1, 1987 the permissible lead level was lowered to 0.29 grams per litre from 0.77 grams per litre. By the end of 1992, the use of lead will be effectively eliminated. The U.S. level is already at 0.026 grams per litre with elimination by January 1988. Both methanol and ethanol can serve very well as octane enhancers in replacing lead.

In a report on gasoline additives tabled in June 1986, the House of Commons Standing Committee on Energy, Mines and Resources found no serious technical or environmental problems arising from the use of these alcohols as blending agents. They are already being marketed in a number of countries for transportation use. The economics of their use may be the main question since, for instance, the popularity of ethanol in the U.S. for gasoline blending is the result of agricultural subsidies. Ethanol

can be derived from starch- and sugar-containing feedstocks such as grains and root crops. Expanded ethanol production could increase domestic demand for agricultural products by offering a market for substandard crops, crop residues and crop surpluses.

Although the Standing Committee expressed reservation at the time about the cost-efficiency of a methanol-ethanol blend, subsequent work by the Department of Energy, Mines and Resources indicated in January 1986 that a blend of 5% methanol and 3% ethanol could be attractive if ethanol prices were relatively low. While the cost of producing ethanol tends to exceed the cost of gasoline, it can be made quite competitive by mixing it with methanol which is currently 40% of the cost of ethanol. Methanol cannot be used in gasoline without ethanol as a co-solvent due to technical difficulties in engine performance.

About 2.5 million tonnes of grain per year would be required to generate the ethanol for this blend to be added to all gasoline currently marketed in Canada. Methanol blends are now sold commercially in Ontario and western Canada but only in small volumes by independent gasoline marketers.

There are two pilot projects under consideration by the Department of Regional Industrial Expansion's Industrial and Regional Development Program for the manufacture of ethanol from grain. The timing of the phase-out of lead will affect the success of these experiments since the viability of these plants is dependent on the ability of proponents to secure markets for the fuel ethanol.

The governments of British Columbia, Alberta, Manitoba and Ontario are ready to or have announced their intention to offer provincial fuel tax exemptions for gasoline containing ethanol.

It may take the years before lead is to be phased out in 1992 to perfect the technology for introducing fuel ethanol production on a broad basis. The Department of Energy, Mines and Resources currently has funding for demonstration projects that will expire in March 1988.

6.5 The Committee recommends that funding by the Department of Energy, Mines and Resources, Bioenergy Development Program be assured beyond March 1988 so that the commercial viability of fuel ethanol be established before 1992.

The Committee understands that the Minister of Energy, Mines and Resources will be releasing policy guidelines on the use of fuel ethanol in the fall of 1987. Given the fact that the petroleum industry will have to make decisions about octane enhancers in the near future, it needs to be certain that oxygenates can meet octane requirements before expenses are incurred in finding alternative solutions.

6.6 The Committee urges the Minister of Energy, Mines and Resources to support the use of fuel ethanol as an octane enhancer and to provide direction to the petroleum industry in its replacement of this use of lead.

The major reason for the increase in machinery repair costs is higher prices for repair parts and labour, as well as the decline of new machinery purchases (Ralph Jespersen, President, Unifarm, Issue 11:10, 12-3-87).

FARM MACHINERY

A. Machinery and Productivity

Farm machinery is a key factor in maintaining and improving the productivity of Canadian farmers. The labour-saving capacity of machinery enables commercial farmers, who comprise less than 1% of the population, to produce enough to meet the major food needs of nearly 26 million Canadians as well as additional products for export that help to maintain a positive trade balance for Canada. Furthermore, the adoption of the latest technology and the efficiency of farm machinery performance affect the utilization and the total cost of such inputs as fuel, fertilizer, chemicals and seeds. In turn, the production costs of domestic food and products for export are influenced by the efficiency with which farm inputs are used as well as by the prices of these inputs. Like the proverbial sharp pencil of shrewd farm operators, the computer is now becoming the ultimate tool for analyzing and determining the lowest cost investment and operation of machinery, as well as the efficient utilization of many other inputs on Canadian farms.

B. Importance of Machinery Expenditures to Input Costs

The Committee is aware that machinery-related expenditures form a significant proportion of total operating costs and depreciation, ranging from about 21% in eastern Canada and British Columbia to about 35% in the prairie provinces. With the possible exception of feed in those provinces of eastern Canada oriented to livestock production, machinery-related expenditures represent the greatest share of costs on Canadian farms.

In the Maritimes, for example, fuel and lubricants, machinery repairs and depreciation on machinery amounted to 6.1%, 7.7% and 9.1% respectively, and 22.9% collectively, of total operating costs and depreciation in 1986. In Quebec, fuel and lubricants, machinery repairs and depreciation on machinery amounted to 4.4%, 6.9% and 8.9% respectively, and 20.2% collectively. In Ontario, these same expenditures in that order were 4.7%, 6.2% and 10.9%, and totaled 21.8%. Similarly, in British Columbia, these expenditures were 5.6%, 6.8% and 9.5%, and totaled 21.9%. However, in the prairie provinces, fuel and lubricants, machinery repairs and depreciation on machinery were 7.5%, 8.9% and 17.7% respectively, and 34.1% collectively, of total operating costs and depreciation. Furthermore, these particular expenditures omit interest payments on machinery purchases.

The significance of machinery-related expenditures may be more readily seen in their relation to the sales of farm products. In the maritime provinces, expenditures on fuel and lubricants, machinery

repairs and depreciation on machinery per \$1,000 sales of crops, livestock and livestock products in 1986 were \$47, \$60 and \$71 respectively, or \$178 collectively. In Quebec, fuel and lubricants, machinery repairs and depreciation on machinery were \$34, \$54 and \$69 respectively, or \$157 collectively. In Ontario, these same expenditures in that order were \$37, \$47 and \$84, and totaled \$168. In British Columbia, these expenditures were \$48, \$58 and \$80, and totaled \$186. Fuel and lubricants, machinery repairs and depreciation on machinery in the prairie provinces were \$64, \$76 and \$151 respectively, or \$291 collectively. It should be noted again that these expenditures omit interest payments on machinery purchases.

C. Price Trends of Farm Machinery and Repairs

The prices of farm machinery and machinery repairs greatly affect the costs of machinery-related items in operating expenditures. During the 1981-86 period, the prices of all types of machinery and repairs increased at a greater rate than the prices of farm inputs in general.

In eastern Canada, during that period, the average price of farm machinery replacement increased 15.1% and repairs 21.0%. The prices of all farm inputs increased on average by 8.3%. In western Canada, farm machinery replacement prices increased 13.5% and repairs by 19.4%. These trends are in contrast to an average increase of 8.8% for all farm inputs.

Witnesses stated that the major reason for the increase in machinery repair costs is higher prices for repair parts and labour, reinforced by a decline in new machinery sales. This observation was supported by Agriculture Canada at the 1986 Agricultural Outlook Conference. It was noted that there is less competition in this sector and profits will likely be taken on repair parts to compensate for losses on sales of complete machines. The Committee was told, for example, that farm tractor sales are now 58% of 1979 sales and combine sales are down to 44% of the 1979 level.

D. Availability of Parts, Service and Extended Warranties

The farm machinery industry in Canada is struggling for survival through a period of financial crisis, precipitated and reinforced by the continuing economic downturn in Canadian agriculture. Farm machinery shipments from Canadian manufacturers have decreased by 45% since 1981, falling from \$1,403 million to \$770 million in 1986. Furthermore, the collapse of some major companies and mergers of companies in recent years have raised concerns about competition in the farm machinery manufacturing sector and about possible impacts on the supply of parts for certain machines. The decrease in the number of dealer outlets has been accelerated by the continuing low sales of new machinery, high inventories, too much credit extended and mergers of farm machinery manufacturers. The annual survey conducted by the Farm Equipment Manufacturers Association shows that 2,770 farm equipment dealers have gone out of business in Canada and the United States since 1981, and that the downtrend continued in 1986. Some 44% of these dealers were associated with the White Farm Manufacturing Company, Case/International Harvester and various short-line manufacturers. Consequently, farmers in various localities are concerned about the distance they must travel for parts and service.

The Committee heard farmers' concerns on the inadequacy of machinery repair and servicing in many areas of Saskatchewan and Alberta. Because of the inaccessibility of specialized repair shops and the high cost of repairs, some farmers have been constrained to acquire new machinery and have thereby increased their debt load. Consequently, witnesses expressed the need for more parts depots.

The governments of at least two provinces have taken actions to assist financially troubled farm machinery dealers. The Government of Alberta has attempted to maintain about one-third of the province's farm implement dealers, who are suffering from the depressed financial conditions in

agriculture, by means of guarantees on operating capital loans from chartered banks. An implement dealer can qualify through the bank for a \$250,000 government guarantee on a loan secured by parts and used machinery. The \$25 million program expires on December 31, 1987. The treasurer of Ontario announced on February 11, 1987, a temporary capital tax reduction program for farm equipment dealers. The program reduces to a maximum of \$200, the capital tax otherwise payable by farm implement dealers on their first \$3 million in taxable capital, regardless of the total amount of their taxable capital. This could mean capital tax savings of as much as \$17,600 to individual farm equipment dealers over the next two years.

The potential for reducing machinery maintenance costs through the standardization and interchangeability of parts was brought to the Committee's attention. Witnesses also expressed the need for developing an extended warranty and service program for new machinery, which could help to reduce repair costs. They stated that agricultural debt would have been smaller if the investment tax credit to purchase new machinery had been channelled toward reducing the cost of extended warranty insurance.

With regard to the foregoing proposals, the Committee notes that parts standardization was reviewed by the Royal Commission on Farm Machinery appointed in 1966. A study carried out for the Commission indicated that, despite established ASAE (American Society of Agricultural Engineers) standards, small dimensional differences without significant engineering reasons persisted among otherwise identical, fast selling parts of widely used agricultural machines made by different manufacturers. The Commission determined that, due to the large number of different parts used and frequently modified by various manufacturers, progress would be restricted to a limited number of parts that sell in large volumes. Further progress could be made through research into the possibilities of standardization and leadership to achieve it. The development of cross-classified parts lists for currently identical parts was more readily achievable and was recommended by the Commission. In subsequent years, the extent of standardization has been conditioned by market forces and competition among the major farm machinery manufacturing companies and the suppliers of "will-fit" parts.

The Committee further recognizes that the prairie provinces have the strongest legislation and regulations on repair parts supply and warranties, which are monitored by provincial farm machinery boards. However, all provinces do not have such legislation or active and effective liaison with farmers, dealers, distributors and manufacturers.

The Committee concludes that under the prevailing economic conditions in agriculture which are adversely affecting farm machinery dealerships, the accessibility of machinery parts is critically important to maintain farm production, to reduce input costs and to sustain farm income. The Committee concludes also that there may be potential for further cost reductions to farmers as well as to farm machinery suppliers in striving to achieve a greater degree of standardization and interchangeability of parts. Furthermore, the Committee concludes that the proposals for extended warranties and service merit consideration.

7.1 The Committee recommends that Agriculture Canada and other departments of the federal and provincial governments seek methods of guaranteeing adequate farm machinery maintenance service during the present downsizing of the farm machinery industry.

The manufacturing of farm machinery in Canada has become more and more dominated by small regional manufacturers. These manufacturers are spread throughout the agricultural regions of Canada, with the greatest number in the prairie provinces. They are generally located in small rural communities close to their customers. Their strength is in innovative equipment for cultivating, seeding, handling, etc. that is suitable for local conditions. They are important in providing equipment that

helps Canadian farmers keep their costs down. These small farm machinery manufacturers have been suffering from the drop in machinery sales and some have been purchased by other firms. The reduction in dealerships and the mergers of the major machinery manufacturers have led to the reduction of market outlets for the products of these short-line manufacturers. Many of these firms' financial condition is very fragile and their existence threatened by a prolonged slump in farm machinery sales. They are important in maintaining the competitiveness of Canadian agriculture and the viability of many rural communities.

7.2 The Committee therefore recommends that the federal government examine the Canadian agricultural machinery industry with respect to its viability and its continuity as a source of innovation for Canadian farmers.

7.3 The Committee further recommends that the federal and provincial governments, together with the Prairie Agricultural Machinery Institute and the farm machinery industry, cooperatively undertake to study the feasibility of extended utilization of interchangeable parts among different manufacturers and the development of a system of circulating information on currently interchangeable parts.

7.4 The Committee also suggests that the federal government encourage provincial governments to develop more uniform regulations for warranties and the possible extension of such warranties under effectively monitored provincial farm machinery legislation.

E. Testing the Performance of Farm Machinery

The Committee was told that farmers in the prairie provinces have concerns about obtaining more timely information on performance tests of farm machinery and equipment, and ensuring the continued viability of the Prairie Agricultural Machinery Institute to monitor the performance and reliability of farm machinery.

The Committee is aware that these functions have been performed by the Prairie Agricultural Machinery Institute (PAMI) since 1974. This unique organization was established as a corporate body under the *Prairie Agricultural Machinery Institute Act, 1973-74*, of the province of Saskatchewan. The duties of the Institute as described in the legislation are as follows:

- (1) to test and appraise under actual or simulated working conditions, machinery sold or offered or intended for sale;
- (2) to undertake development work to improve and develop machinery for agricultural use; and
- (3) to publish such reports, pamphlets and bulletins as are consistent with the intent of the Act.

Nevertheless, it is a cooperative undertaking of the three prairie provinces and, in accordance with an agreement signed by each of the provinces, funding is granted in the following proportions: Saskatchewan, 45%; Alberta, 35%; and Manitoba, 20%. In the fiscal year ending March 31, 1986, 83.6% or \$2,349,155 of the Institute's funds came from the provincial grants. The balance of total revenue came mainly from fees for service, investment and subscription income. The programs and activities of the Institute are defined and guided within the terms of the Act by a Council of appointed farmers, implement dealers, manufacturers, government and university representatives from the three provinces.

The Prairie Agricultural Machinery Institute carries out functional tests of agricultural machines to evaluate their performance, safety and suitability for prairie agriculture. The selection of machines to be tested is based on the frequency of requests for information, the uniqueness of the machine for prairie agriculture and the availability of performance data on the machine. The evaluation reports are circulated to several thousand subscribers throughout Canada and abroad.

The work and expertise of the Institute is widely publicized through its extension program of publications, meetings, radio and television interviews, news releases, short courses, participation in trade fairs and in external committees. Under its development program, PAMI assists manufacturers on a fee for service basis to develop and improve machines for the needs of prairie agriculture. PAMI also maintains a research program, in cooperation with universities, research institutions and interested manufacturers, on projects to determine design parameters, to develop machinery suitable for new crops or modified cultural practices and to develop safety performance standards. In the 1985-86 fiscal year, the Institute spent \$2,824,812 on providing all of these services.

The development program of PAMI assists smaller manufacturers with developing new machine concepts, design modifications and prototype testing. The Institute provides such services as technical information searches, design of electronic controls and other systems, experimental stress analysis, high speed photography, mobile field laboratories and specialized measuring equipment, and durability testing of components or complete machines. In 1985-86, the Humboldt station worked on projects for 23 different manufacturers and gave technical advice on the development of new products to 15 other manufacturers. The stations at Lethbridge and Portage la Prairie were also engaged in development work for local manufacturers. These projects included work on cultivators, sprayers, straw spreaders, a prototype heat exchanger for grain drying and zero-till grain drills. Fee for service arrangements are negotiated with manufacturers for such work and for confidential reports on the projects. In 1985-86, PAMI's revenue from this development work was \$231,526. Each year, more manufacturers are taking advantage of PAMI's development program.

In 1981, the Prairie Agricultural Machinery Institute was approved by the Canadian Government to be the designated Canadian authority to conduct performance tests and certification of tractors exported to countries of the Organization for Economic Cooperation and Development (OECD). It continues to provide such internationally recognized testing and certification for Canadian manufacturers.

The Committee recognizes that concern for the viability of PAMI is based on the fact that its 10-year mandate expired in September 1984 and, that during the extension of its operations, the Province of Alberta has cut its contribution from \$822,000 in 1985-86 to \$622,000 in 1986-87 with the announced intention of terminating its support. Although PAMI was created to develop a coordinated, regional approach to machinery evaluation, Alberta Agriculture intends to take over PAMI facilities in Lethbridge and to continue the testing program. The other two provinces have also been reducing their grants to PAMI.

The Committee was told by a representative of the Government of Saskatchewan that the provincial government has committed \$200 million toward a development program to address several needs in the province's agricultural sector and cut funding to PAMI because of the government's fiscal restraint measures. Furthermore, seeing that new machinery is not being put on the market or purchased frequently, less testing seems to be required. Consequently, the Government of Saskatchewan is considering other possibilities for the Institute, including that of obtaining funding from machinery manufacturers.

The Committee was informed that the Government of Saskatchewan has given written notice to the Prairie Agricultural Machinery Institute of its intention to terminate funding by 1988-89, because

of changing fiscal priorities. The PAMI Council Chairman, Gordon Nystuen, has indicated that losing 80% of its funding all at once from Alberta and Saskatchewan would jeopardize the operations of the Institute. He has also stated that, if government funding was reduced gradually, PAMI would have time to seek alternative funding sources including manufacturers. Although the Government of Manitoba has reduced its contribution for 1987-88 by 9%, it intends to continue support for the Institute. The PAMI Council has requested meetings with the Ministers of Agriculture of the three provinces.

The Committee concludes that the Prairie Agriculture Machinery Institute has provided a valuable service of testing and appraising the performance of farm machinery, the benefits of which extend beyond the prairie region to the national and international spheres. The Institute has become an internationally recognized testing agency for farm machinery that could facilitate the entry of smaller Canadian manufacturers into markets abroad. Accordingly, the Committee believes that the Prairie Agricultural Machinery Institute should continue to exist in its present form or some other form in order to maintain its useful services.

7.5 The Committee therefore recommends that the federal government discuss with the governments of Manitoba, Saskatchewan and Alberta ways to preserve the Prairie Agricultural Machinery Institute and to continue its regional, national and international services.

There has been a substantial amount of interest in Saskatchewan in regard to the price survey. It is well read by most farmers, and it is printed in all the weekly papers and in the *Western Producer*. So it is a very informative item, I believe, that farmers look at each time before they purchase. I think most farmers do (The Honourable Neal Hardy, Minister of Rural Development, Government of Saskatchewan, Issue 24:31, 13-5-87).

INPUT PRICE INFORMATION

For the majority of inputs examined, pricing and price variability emerged as overwhelming concerns, both locally and nationally, and in comparison with the United States. Access to timely information on prices, conveniently available, can provide a vehicle for farmers to avoid being overcharged. The Committee is convinced that farmers need to have ready access to information on input prices in their area. For many years they have had timely information available on the products they sell. For consumers generally, information on comparative prices for items they buy is becoming more readily available. Furthermore, with increased computer flexibility, it now is feasible to offer comparative price information to special groups of users of particular products. The dissemination of comparative price information on farm inputs could in turn encourage price competitiveness.

The Government of Saskatchewan confirmed this in their testimony to the Committee. Comparative price information has been provided in that province for chemicals, fertilizers and fuels over the past two years. Now that farmers are aware of price differences across the province they can comparison shop and dealers are aware of this. The Saskatchewan Farm Input Price Survey of retail farm input prices is conducted by the University of Saskatchewan under contract to the Department of Agriculture. The survey is conducted weekly during the growing season in 25 centres and includes 22 core farm inputs. According to the Saskatchewan Minister of Rural Development, the Honourable Neal Hardy, the survey continues to show price variations across the province for an identical product but publication of the price information has helped reduce price differences among outlets.

Farmers use toll-free lines operating out of the University of Saskatchewan, the Department of Agriculture and the 44 agricultural offices located around the province. The Committee was told that the Saskatchewan Department of Agriculture alone receives somewhere in the neighbourhood of 600 calls a month. The service is also available through AGRITEX for those farmers who can access price information by computer.

While other provinces collect farm input price information, we are not aware that any other province makes prices in each town available to farmers. Statistics Canada gathers information for its farm input price indices; these are used mainly to track year-to-year changes. Such data are not in sufficient detail to be used for comparative pricing in individual provinces. Agriculture Canada only

gathers and disseminates market information on prices, volumes traded and market trends for poultry, livestock and meat products, dairy, fruits and vegetables, and special crops; in the future this information will be computerized for the use of producers, processors and distributors. Agriculture Canada's involvement in this type of price service flows from legislative requirements to disseminate information in relation to produce markets. It has no such mandate in relation to input prices. The Department has indicated, however, that it agrees that good price information is useful to farmers.

The Committee believes that more should be done across the country to monitor prices and keep farmers well informed of reasonable price locations for their pesticide, fertilizer, fuel and other inputs. As the Government of Saskatchewan commented, "It (the Farm Input Price Survey) has been, we believe, very productive as far as the farmer goes. I believe it has controlled the cost. We have not seen any domestic rising in the cost of any of the products and in fact we have noticed that the farmers now are using the toll-free line that we supply. . ." (Issue 24:8, 13-5-87). The Committee is well aware that the feasibility of providing comparative price information on farm inputs will vary across the country and that the appropriateness of including various inputs will depend on how important a cost they represent to farmers and how regularly they are purchased.

8.1 The Committee therefore recommends that Agriculture Canada work with provincial departments of agriculture to establish a system to supply price information on farm inputs to farmers in each province via the most appropriate channel.

Every crisis, however, carries within it the seeds of opportunity. The tough times in the world grain trade make us take a closer look at ourselves and help us to improve. Then, perhaps, there will end up being something positive in what has happened (Roy Cusitar, Vice-President, United Grain Growers, Issue 16:11, 26-3-87).

CONCLUSIONS

Canadian grain farmers are facing a prolonged period of difficulty in the marketing of their products and the solution to these marketing problems, to a large extent, has to be sought at the international level. In addition, many of the grain farmers, along with others in different types of farming, have accumulated heavy debt loads and are encountering falling land values.

The Committee's examination into ways in which input costs might be reduced has been conducted against this backdrop of severe marketing and financial difficulties. At the hearings, witnesses brought evidence and suggestions for action to the Committee. Just as our hearings were ending the first results of the Census of Agriculture were released. This is the first Census to obtain a complete profile of expenditures since 1941. While this profile relates to 1985, it will provide a basis for improved annual estimates of expenditures on farm inputs. It will also enable more systematic analysis of farm inputs by type of farm, pointing to ways of making adjustments in the use of inputs so as to reduce costs.

While such analysis will be useful in assisting farmers to improve their longer-run farm management decisions, the Committee has focused on how to reduce the prices that farmers pay for inputs. In examining the various costs of concern to farmers, the Committee has emphasized those of major importance to grain farmers. Their incomes have been under the greatest pressure in recent years. In making recommendations, however, the Committee has been cognizant of the concerns of other farmers. And, in our examination of the means of lessening the costs of farm finance, we have been acutely aware of the widespread incidence across Canadian agriculture of reduced equity and collateral. Furthermore, with the heavy debt load for many farmers in almost all types of farming, there are residual effects of the very high interest rates of the early 1980s and the real interest rates that are still quite high.

Based on our hearings, the Committee has made recommendations on measures to ease the impact of farm debt, encourage competitiveness in the pricing of farm inputs and other steps to reduce costs. In doing so it has sought avenues that would enhance the long term productivity of Canadian agriculture. It has also sought to make recommendations that would lessen costs or improve services to farmers without entailing major increases in the expenditure of government funds. Even if government funds could be made available, many of the problems that we encountered could not be handled through government action alone.

Nevertheless, we did find actions that government could take that should serve to reduce farm input prices. We have made recommendations on farm chemicals that run in this direction. We have also recommended certain steps in grain handling and transportation that should lessen some costs. In other instances, market developments have already reduced prices, as, for example, with farm fuels and fertilizers. In addition to these recommendations in specific areas, and because of the concern with price variability between adjacent areas of the country, we have made a recommendation to improve the monitoring of input prices.

In the difficult area of farm finance, we have sought means to facilitate the lessening of the farmers' debt burdens, and have made recommendations that should both improve access to equity financing and lead to the provision of better financial advice to farmers. Neither in this area, nor with the other inputs that we examined, however, do we believe that we have opened major doors to the solution of farmers' income and financial difficulties. Efforts in many directions, including the farm inputs which we have examined, are going to be required.

WITNESSES

Individual/Organization	Date	Issue
Canadian Federation of Agriculture:	May 14, 1987	25
<ul style="list-style-type: none"> —D. Knoerr, President; —J. Proulx, First Vice-President and President, <i>Union des producteurs agricoles</i>; —G. Blanchard, Second Vice-President; —W. Hamilton, Executive Secretary. 		
Canadian Fertilizer Institute:	April 29, 1987	23
<ul style="list-style-type: none"> —R. Topp, Chairman of the Board; —G. Peesker, Business Manager; —J. Brown, Managing Director; —R. Parkes, President, Nitrochem Inc. 		
Canadian Organic Growers Association:	March 18, 1987	13
<ul style="list-style-type: none"> —Dee Kramer, Vice-President; —Dr. Ann Clark, Professor of Crop Sciences, University of Guelph. 		
Crop Protection Institute of Canada:	May 27, 1987	30
<ul style="list-style-type: none"> —J. Oliver, Chairman; —T. Vaux, First Vice-Chairman; —M. Delage, Second Vice-Chairman; —J. Elliott, President; —D. Latter, Director; —D. Brown, Director. 		
Department of Agriculture:	January 20, 1987	5
	January 28, 1987	6
	February 17, 1987	9
	May 20, 1987	26
<ul style="list-style-type: none"> —Hon. John Wise, Minister; —Jean-Jacques Noreau, Deputy Minister; —A.O. Olson, Assistant Deputy Minister, Research Branch; —B. Morrissey, Assistant Deputy Minister, Food Production and Inspection Branch; —D. Fenety, Acting Director General, Grains and Oilseeds Branch; —Dr. Jean Hollebhone, Acting Director, Issues, Planning and Priorities Division, Pesticides Directorate; —Dr. Jim McKenzie, Director, Inputs and Technology Division; —Dr. T.F. Wise, Chief, Input Industries and Markets, Inputs and Technology Division; —Mark Spearin, Economist, Inputs and Technology Division. 		

Individual/Organization	Date	Issue
<ul style="list-style-type: none"> —Ted Pidgeon, Economist, Inputs and Technology Division; —Allan Asselstine, Economist, Inputs and Technology Division. 		
Department of Consumer and Corporate Affairs:	January 28, 1987	6
<ul style="list-style-type: none"> —Bruce Couchman, Policy Analyst, Legislative Reform Branch. 		
Farm Credit Corporation:	March 24, 1987	14
	May 20, 1987	26
<ul style="list-style-type: none"> —Eiliv Anderson, President; —Ralph Ashmead, Manager, Research and Development. 		
Focus on Inputs Association, Inc.:	February 17, 1987	9
<ul style="list-style-type: none"> —Ken Goudy, President; —Barrie Manikel, Director; —Don Good, Consultant. 		
Government of Saskatchewan:	May 13, 1987	24
<ul style="list-style-type: none"> —The Hon. Neal Hardy, Minister of Rural Development. 		
Keystone Agricultural Producers, Inc.:	March 31, 1987	17
<ul style="list-style-type: none"> —Jack Penner, President; —Earl Geddes, First Vice-President; —R.C. Hodgson, Director. 		
Manitoba Farm Business Association:	February 4, 1987	7
<ul style="list-style-type: none"> —Curtis Sims, President; —Allan Calder, Member of the Board of Directors; —Bob Hopley, Member of the Association. 		
Manitoba-North Dakota Zero Tillage Farmers' Association:	January 20, 1987	5
<ul style="list-style-type: none"> —Garth Butcher, President; —Jim McCutcheon, Past President and Chairman of the herbicide committee. —Bob McNabb, Past President; —Gordon McPhee, Past Vice-President. 		
National Farmers Union:	March 25, 1987	15
<ul style="list-style-type: none"> —Arthur Macklin, Vice-President. 		

Individual/Organization	Date	Issue
Ontario Corn Producers' Association: —Clifford Leach, President; —Frank Anthony, Vice-President; —Martin Schneckeburger, Treasurer.	April 8, 1987	19
Prairie Pools Inc.: —Garth Stevenson, President, Saskatchewan Wheat Pool; —Charles Swanson, First Vice-President, Manitoba Pool Elevators; —Alex Graham, Second Vice-President, Alberta Wheat Pool; —Peggy LeSuerer-Brymer, Policy Analyst, Alberta Wheat Pool; —Dan Schmeyster, Research Manager, Saskatchewan Wheat Pool.	April 9, 1987	20
Unifarm: —Ralph Jespersen, President; —Elmer Allen, Research Economist.	March 12, 1987	11
United Grain Growers: —Roy Cusitar, Vice-President; —Buck Spencer, Director; —J. Russel Jeffrey, Research Associate.	March 26, 1987	16
Western Canada Fertilizer Association: —Don Pottinger, Vice-President, Simplot Chemical Co. Ltd.	April 29, 1987	23
Western Canadian Wheat Growers Association: —Bill Duke, President.	March 4, 1987	10
Western Fertilizer and Chemical Dealers Association: —Dave Wowchuck, Executive Director.	April 29, 1987	23

<p>Ontario Corn Producers' Association 1980-1981 Division</p>	<p>— Clifford Leach, President — Frank Anthony, Vice President — Martin Schickelburger, Treasurer</p>
<p>Ontario Potato Producers' Association 1980-1981 Division</p>	<p>— Charles Stevenson, President, Saskatchewan Wheat Pool — Charles Stevenson, Vice President, Saskatchewan Pool — Charles Stevenson, Treasurer, Saskatchewan Pool</p>
<p>Ontario Potato Producers' Association 1980-1981 Division</p>	<p>— Alex Graham, Second Vice President, Alberta Wheat Pool — Tony L. Johnson, Policy Analyst, Saskatchewan Wheat Pool — Tony L. Johnson, Treasurer, Saskatchewan Wheat Pool</p>
<p>Ontario Potato Producers' Association 1980-1981 Division</p>	<p>— John Johnson, President — Blair Allen, Research Economic</p>
<p>Ontario Potato Producers' Association 1980-1981 Division</p>	<p>— Roy Carter, Vice President — Buck Spencer, Director — J. Russel Jeffrey, Research Associate</p>
<p>Ontario Potato Producers' Association 1980-1981 Division</p>	<p>— Dan Pottinger, Vice President, Simplot Chemical Co. Ltd. — Dan Pottinger, Vice President, Simplot Chemical Co. Ltd.</p>
<p>Ontario Potato Producers' Association 1980-1981 Division</p>	<p>— Bill Dale, President — Dave Woschuck, Executive Director</p>
<p>Ontario Potato Producers' Association 1980-1981 Division</p>	<p>— Arthur Mackay, Vice President</p>

BRIEFS RECEIVED

Individual/Organization

Hoechst Canada Inc.:

—M. Delage, Corporate Vice-President and General Manager.

Klondike Farm Ltd.:

—E. Donn Mitchell.

Westarc Group Inc.:

—Reg Forbes, Project Director, Canadian Rural Transition Program.

BRIEFS RECEIVED

Individual/Organization

Hoschek Canada Inc.:

—M. Delage, Corporate Vice-President and General Manager

Kloehnke Farm Ltd.

—E. Donn Mitchell

Westair Group Inc.

—Reg Forbes, Project Director, Canadian Rural Transition Program

Pursuant to Standing Order 99(2), the Committee requests that the Government table a comprehensive response to the Report within one hundred and fifty (150) days.

A copy of the relevant Minutes of Proceedings and Evidence (*Issue Nos. 5, to 7, 9 to 11, 13 to 17, 19, 20, 23 to 26, 30 and 32, which includes this report*) is tabled.

Respectfully submitted,

LEE CLARK,
Chairman

MINUTES OF PROCEEDINGS

Tuesday, June 9, 1987

Meeting No. 36

The Standing Committee on Agriculture met in camera at 9:38 o'clock a.m. this day in Room 269, West Block, the Chairman, Lee Clark, presiding.

Members of the Committee present: Vic Althouse, Harry Brightwell, Lee Clark, Marc Ferland, Maurice Foster, Sid Fraleigh.

Acting Member present: Jack Scowen for Bill Gottselig.

In attendance: From the Library of Parliament: Sonya Dakers and Sally Rutherford, Research Officers.

Witnesses: From the Department of Agriculture: Dr. Jean Hollebhone, Acting Director, Issues, Planning and Priorities Division, Pesticides Directorate; Dr. T.F. Wise, Chief, Input Markets Section.

The Committee resumed its study of the farm input costs. (*See Minutes of Proceedings and Evidence for Thursday, November 20, 1986, Issue No. 1.*)

The Committee resumed consideration of the Draft Report on farm input costs.

At 12:02 o'clock p.m., the Committee adjourned to the call of the Chair.

Wednesday, June 10, 1987

Meeting No. 37

The Standing Committee on Agriculture met in camera at 4:00 o'clock p.m. this day in Room 269, West Block, the Chairman, Lee Clark, presiding.

Members of the Committee present: Vic Althouse, Harry Brightwell, Lee Clark, Marc Ferland, Maurice Foster, Sid Fraleigh, Bill Gottselig.

In attendance: From the Library of Parliament: Sonya Dakers, Sally Rutherford and Len Christie, Research Officers.

Witnesses: From the Department of Agriculture: Dr. T.F. Wise, Chief, Input Markets Section; Alan Asselstine, Economist, Input Markets Section.

The Committee resumed its study of the farm input costs. (*See Minutes of Proceedings and Evidence for Thursday, November 20, 1986, Issue No. 1.*)

The Committee resumed consideration of the Draft Report on farm input costs.

At 5:50 o'clock p.m., the Committee adjourned to the call of the Chair.

Thursday, June 11, 1987
Meeting No. 38

The Standing Committee on Agriculture met in camera at 9:38 o'clock a.m. this day in Room 269, West Block, the Chairman, Lee Clark, presiding.

Members of the Committee present: Vic Althouse, Harry Brightwell, Lee Clark, Maurice Foster.

Acting Members present: Jack Scowen for Bill Gottselig, Walter Van de Walle for Sid Fraleigh.

In attendance: From the Library of Parliament: Sonya Dakers, Sally Rutherford and Len Christie, Research Officers.

Witnesses: From the Department of Agriculture: Alan Asselstine, Economist, Input Markets Section; John A. Dawson, Economic Consultant.

The Committee resumed its study of the farm input costs. (*See Minutes of Proceedings and Evidence for Thursday, November 20, 1986, Issue No. 1.*)

The Committee resumed consideration of the Draft Report on farm input costs.

It was agreed,—That a meeting be scheduled for Monday, June 15, 1987, at 3:30 o'clock p.m.

At 11:40 o'clock a.m., the Committee adjourned to the call of the Chair.

Monday, June 15, 1987
Meeting No. 39

The Standing Committee on Agriculture met in camera at 3:55 o'clock p.m. this day in Room 269, West Block, the Chairman, Lee Clark, presiding.

Members of the Committee present: Vic Althouse, Lee Clark, Maurice Foster, Sid Fraleigh, Bill Gottselig.

In attendance: From the Library of Parliament: Sonya Dakers, and Sally Rutherford, Research Officers.

The Committee resumed its study of the farm input costs. (*See Minutes of Proceedings and Evidence for Thursday, November 20, 1986, Issue No. 1.*)

The Committee resumed consideration of the Draft Report on farm input costs.

At 5:20 o'clock p.m., the Committee adjourned to the call of the Chair.

Tuesday, June 16, 1987
Meeting No. 40

The Standing Committee on Agriculture met in camera at 9:39 o'clock a.m. this day in Room 269, West Block, the Chairman, Lee Clark, presiding.

Members of the Committee present: Vic Althouse, Lise Bourgault, Harry Brightwell, Lee Clark, Maurice Foster, Sid Fraleigh, Bill Gottselig.

In attendance: From the Library of Parliament: Sonya Dakers, and June Dewetering, Research Officers. John A. Dawson, Economic Consultant. Myles Frost, Legislative Assistant.

The Committee resumed its study of the farm input costs. (*See Minutes of Proceedings and Evidence for Thursday, November 20, 1986, Issue No. 1.*)

The Committee resumed consideration of the Draft Report on farm input costs.

At 12:37 o'clock p.m., the Committee adjourned to the call of the Chair.

Tuesday, June 23, 1987
Meeting No. 41

The Standing Committee on Agriculture met in camera at 9:40 o'clock a.m. this day in Room 269, West Block, the Chairman, Lee Clark, presiding.

Members of the Committee present: Vic Althouse, Lise Bourgault, Harry Brightwell, Lee Clark, Maurice Foster, Bill Gottselig.

Acting Member present: Walter Van de Walle for Bill Gottselig.

In attendance: From the Library of Parliament: Sonya Dakers, Sally Rutherford and June Dewetering, Research Officers. John A. Dawson, Economic Consultant.

The Committee commenced consideration of the Second Report of the Sub-Committee on the Tobacco-Growing Industry.

By unanimous consent, Harry Brightwell presented the Second Report of the Sub-Committee on the Tobacco-Growing Industry.

On motion of Harry Brightwell, it was agreed,—That the Second Report of the Sub-Committee on the Tobacco-Growing Industry be concurred in and that Mr. Brightwell be instructed to present it to the House as the Third Report of the Standing Committee on Agriculture.

On motion of Harry Brightwell, it was agreed,—That, pursuant to Standing Order 99(2), the Committee requests that the Government table a comprehensive response to the Report within one hundred and fifty (150) days.

On motion of Maurice Foster, it was agreed,—That the Committee will print its Third Report in the quantity established by the Board of Internal Economy.

The Committee resumed its study of Farm input costs. (*See Minutes of Proceedings and Evidence for Thursday, November 20, 1986, Issue No. 1.*)

The Committee resumed consideration of the Draft Report on farm input costs.

At 12:37 o'clock p.m., the Committee adjourned until 3:30 o'clock p.m., this day.

AFTERNOON SITTING

(42)

The Standing Committee on Agriculture met in camera at 3:39 o'clock p.m. this day in Room 269, West Block, the Chairman, Lee Clark, presiding.

Members of the Committee present: Vic Althouse, Lise Bourgault, Harry Brightwell, Lee Clark, Maurice Foster, Bill Gottselig, Arnold Malone.

In Attendance: From the Library of Parliament: Sonya Dakers, Research Officer. John A. Dawson, Economic Consultant.

The Committee resumed its study of the Farm input costs. (*See Minutes of Proceedings and Evidence for Thursday, November 20, 1986, Issue No. 1.*)

The Committee resumed consideration of the Draft Report on farm input costs.

On motion of Lise Bourgault, it was agreed,—That the Draft Report, as amended, be adopted as the Committee's Fourth Report to the House and that the Chairman be instructed to present it to the House.

On motion of Bill Gottselig, it was agreed,—That, pursuant to Standing Order 99(2), the Committee requests that the Government table a comprehensive response to the Report within one hundred and fifty (150) days.

On motion of Harry Brightwell, it was agreed,—That the Committee will print 750 copies of this Fourth Report to the House in tumble bilingual format, with a distinctive cover.

On motion of Vic Althouse, it was agreed,—That the Clerk be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the Draft Report.

At 5:25 o'clock p.m., the Committee adjourned to the call of the Chair.

Lise Laramée,
Clerk of the Committee