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AD HOC MEETING OF THE CANADA-UNITED STATES INTERPARLIAMENTARY GROUP TO DISCUSS INTERNATIONAL WHEAT MARKETING

JULY 26, 1980

REPORT

BY THE

UNITED STATES DELEGATION

PURSUANT TO

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SENATE DELEGATION

Attending the Conference

EDWARD ZORINSKY, Nebraska, *Chairman*

HENRY BELLMON, Oklahoma
JOHN MELCHER, Montana
JAMES McCLURE, Idaho
LARRY PRESSLER, South Dakota

HOUSE OF REPRESENTATIVES DELEGATION

Attending the Conference

GLENN ENGLISH, Oklahoma, *Chairman*
ARLAN STANGELAND, Minnesota, *Vice-Chairman*

THOMAS DASCHLE, South Dakota
KENT HANCE, Texas
RON MARLENEE, Montana
JAMES JEFFRIES, Kansas
JACK HIGHTOWER, Texas
CHARLES STENHOLM, Texas

LETTER OF TRANSMITTAL

United States Senate,
Washington, D.C., December 31, 1980.

Hon. Walter F. Mondale,
President, U.S. Senate.

Dear Mr. Vice President: Pursuant to Public Law 86–42, approved June 11, 1959, and as chairman of the Senate delegation, I have the honor to submit a report on an ad hoc meeting of the Canada-United States Interparliamentary Group, which was held in Ottawa, Canada on July 26, 1980.

Sincerely yours,

Edward Zorinsky,
U.S. Senator.

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CANADA-UNITED STATES INTERPARLIAMENTARY GROUP

Background

Public Law 86-42, adopted on June 11, 1959, authorized U.S. participation in interparliamentary conferences with Canada. The law provides that Members of the U.S. Congress are to be appointed to meet annually with representatives of the House of Commons and the Senate of the Canadian Parliament "for discussion of common problems in the interest of relations between the United States and Canada." At the 21st meeting of the Canada-United States Interparliamentary Group in San Diego, California in May, 1980, it was decided that an ad hoc group should meet later in the year in Canada to discuss mutual wheat marketing concerns. That meeting was held on July 26, 1980 in Ottawa, Canada.

COMPOSITION OF DELEGATIONS

United States

The President of the Senate appointed the following Senators to the delegation: Edward Zorinsky, Nebraska, Chairman: Henry Bellmon, Oklahoma, James McClure, Idaho, John Melcher, Montana and Larry Pressler, South Dakota.

Representing the U.S. House of Representatives were: Glenn English, Oklahoma, Chairman, Arlan Stangeland, Minnesota, Vice-Chairman, Thomas Daschle, South Dakota, James Jeffries, Kansas, Kent Hance, Texas, Jack Hightower, Texas, Ron Marlenee, Montana, and Charles Stenholm, Texas.

The Members from the Canadian Senate were: Harry Hays, Alberta, Chairman, Martha Bielish, Alberta, and Duff Roblin, Manitoba.

The House of Commons was represented by: Jack Murta, Manitoba, Chairman, Ralph Ferguson, Ontario, Stan Hovdebo, Saskatchewan, Don Mazankowski, Alberta, Bill McKnight, Saskatchewan, Frank Oberle, British Columbia, and Stan Shellenberger, Alberta.

Agenda

The delegates met in morning and afternoon sessions, with three topics discussed at each session. The morning session covered: an overview of the world grain situation, market and policy direction, and cost of production. Subjects discussed during the afternoon session were: market performance and shares, production and supply control, and price objectives and export cooperation.

WORLD GRAIN SITUATION

The morning session of the wheat marketing cooperation talks began with each delegation presenting its views of the current world grain situation. Total world grain production is likely to increase in 1980–81, and a slight build-up of stocks is probable.

Dry weather is affecting crop yields in both Canada and the United States. In Canada, wheat production is projected to be between 13 and 15 million metric tons (m.m.t.), down from 18 m.m.t. the year before and 21 m.m.t. in 1978–79. Drought in Saskatchewan and Alberta caused significantly lower yields, resulting in the smaller crop despite an 8 percent increase in wheat acreage. Although the U.S. winter wheat crop was essentially undamaged by the dry weather, the drought threatens to significantly reduce U.S. corn and soybean crops.

World wheat trade is projected to increase in 1980–81 by about 2 m.m.t. to a total of about 86 m.m.t. A Canadian delegate indicated that the grain handling and transportation problems which had snarled exports in previous years had for the most part been solved, but the smaller than expected wheat crop would hold their exports to between 12 and 15 m.m.t. Canada's export objective is to reach 30 m.m.t. of grain exports by 1985. A U.S. delegate indicated that wheat exports from the United States could reach 1.4 billion bushels in 1980–81, depending upon final production levels and the export sales policies of other countries.

A member of the U.S. delegation noted that the increase in world wheat stocks despite the rise in world wheat trade emphasized the need for increased marketing and production cooperation between the two nations. A Canadian delegate responded that selling wheat below the cost of production was in no one's best interest.

The delegates discussed the history of various proposals to increase wheat marketing cooperation, and noted that traditionally all meetings between Canada and the United States had been on the Administrative rather than the legislative level. One U.S. delegate noted that following several previous meetings the U.S. Administration had indicated its reluctance to enter into any sort of cooperative marketing agreement. He pointed out that the Administration had stated in October 1978 that any sort of "wheat cartel" supported by higher U.S. prices would allow the other wheat exporting countries to undercut U.S. prices, leaving the United States with only the residual market.

Another U.S. delegate raised the point that when world wheat prices rise sufficiently, they prompt importing nations to seek out wheat substitutes and to raise more wheat and substitute grains themselves. Any discussion of higher prices must include a discussion of supply control. There is no way to have uncontrolled production and rising prices without stimulating further production.

Under the Canadian marketing system, according to the Canadian delegation, there is a single purchaser of all wheat and a single seller of wheat exports. The combination of this tightly controlled marketing system and the application of a quota gives the Canadian Government the ability to control the supply of grain available for sale, and therefore the price. In the past two to three years transportation bottlenecks have been a determining factor in the level of exports and marketing quotas, but these problems seem to be clearing up and are not expected to be a significant limiting factor in the future.

Average production in Canada is between 20 and 30 bushels an acre, with the farmer expecting to market between 15 and 20 bushels. As a rule farmers would set their production levels to the amount the Canadian Wheat Board is likely to sell. Since marketing quotas are geared to the average producer, the good farmer is likely to be penalized by having to absorb the grain which cannot be sold immediately.

The Canadian Wheat Board makes an initial payment to the producer of 70 to 75 percent of the target price. This year the initial payment was $4.25 a bushel in Canadian dollars—roughly $3.50 in U.S. dollars. At the end of the year an additional final payment is made if the world market price is higher, as it usually is.

The delegates discussed the problem of limiting production increases while raising prices. The U.S. delegation pointed out that the U.S. Department of Agriculture has estimated that an additional 135 million acres of land could be brought into wheat production if the incentive were great enough. At the same time, however, the U.S. loses approximately 3 million acres of farm land each year to urbanization. The bulk of any increase in production is likely to occur from higher yields. Research and technological advances continue to boost our productive capacity on land already in crops. For example, one U.S. delegate stated that in some regions 40 to 45 bushels an acre used to be considered a good year. Today if a farmer doesn't get 60 to 65 bushels, he considers it a poor crop.

The Canadian delegation stated that low rainfall in most parts of their country severely limits the amount of new land which could be brought into production. In the northern parts of the Plains Provinces only about 10 million more acres could be tilled for crops. Canada also is experiencing a loss of farm land at a rate of about 40 acres an hour.

Limited transportation has also served as a disincentive for Canadian farmers to produce. Since this problem is being conquered, however, greater production is likely. Nevertheless, Canadian farmers are beginning to experience energy price increases, such as U.S. farmers are enduring, and production adjustments are to be expected.

Members of the U.S. delegation pointed out that one of the greatest incentives toward higher production in the United States is the considerable political support in the United States for a "cheap food" policy. Rural areas make up only 4 percent of the voters, making it difficult to overcome a prejudice toward consumers in U.S. food programs. The Canadians responded that there was no equivalent consumer pressure in their country, and that little adverse response to a price hike would be likely.

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MARKET AND POLICY DIRECTION

A member of the Canadian delegation began the discussion of market policy and direction by briefly describing the Canadian marketing and allocation system.

Members of the U.S. delegation raised several questions about the exact workings of the Canadian marketing quota and allocation system. Canadian delegates explained that the tight control their Government exercises over the marketing of grain gives it an effective tool for limiting or expanding supply and affecting price.

Marketing quotas are assigned on an equal basis to all farmers, regardless of historical yield figures. A farmer controls his operation through the designation of acres to controlled grains, such as wheat. He may designate more acres to wheat than he actually intends to plant, in order to compensate for a carryover of grain from previous years. The additional acres may be planted to an uncontrolled crop, such as canary seeds.

The Canadian marketing quota is based on dryland production, so it has the effect of penalizing the high yield farmer in most years. This year, however, there is an open quota; farmers may deliver as much wheat as they wish.

The marketing quota assigned may not be transferred to anyone else: each farmer must declare that the grain was grown on his land. Although virgin prairie may not be counted in the quota, pasture land planted to grass may be. New land may be brought into production and added to the quota, but only after a year's delay.

Since the Canadian quota is based on marketing, rather than on production, it lags roughly 12 months behind the decision to impose the quota. The U.S. production control system, because it is based on acres planted, allows increases in production through higher yields.

A member of the U.S. delegation offered a brief explanation of the US. marketing and production system. The U.S. system is based upon the farmer-held grain reserve program and on voluntary crop-land set-asides. In years in which supplies are determined to be excessive and a set-aside is in effect, a producer may choose to set-aside the required percentage of his planted acres or to plant as much as he chooses. However, if he chooses not to comply with the set-aside he is not eligible for Federal price and disaster protection programs. This year there is no set-aside and farmers are free to plant from fence-row to fence-row.

At harvest time, the producer has the option of selling the grain on the local market for whatever it will bring, or putting the grain in storage either in a warehouse or on the farm. If he chooses to store his grain he may receive a government loan at a specified price—currently $2.50 a bushel for wheat. If the market price rises above the loan price during the year of the loan, the producer may repay the loan and sell the grain.

The producer may also put the grain in the farmer-held reserve. If the market price is below the so-called "release" price, the Government pays storage costs. The producer must agree to a three year commitment to the reserve program. If, however, the release price is hit, the farmer may withdraw from the reserve, repay the loan and sell the grain.

If an even higher level—the "call" price is reached in the open market, the Federal Government will require the repayment of the loan, as a practical matter forcing the producer to sell his grain. One rationale offered for the reserve program was that it allowed producers to hold grain off the market when prices are low, but attracted more grain onto the market when demand is high.

The delegation discussed the current U.S. embargo of grain sales to the Soviet Union. A member of the U.S. delegation indicated that although he did not support the U.S. policy, he was concerned about the recent decision by the Canadian government to increase sales to the U.S.S.R.

A Canadian delegate pointed out that the Canadian government's commitment to support the U.S. boycott was contingent upon the support of other exporting countries. The Canadians would maintain current contacts and historical sales levels, but would not take advantage of the shortfall in U.S. sales. The difficulty arose from the definition of the normal trade level. Canadian sales of wheat to the Soviet Union have varied considerably. In 1972, sales were about 5 m.m.t.; in 1971–72, only 328,000 tons. Over the past ten years, Canadian trade with the Soviet Union has averaged about 3 m.m.t., but over the last three years, only about 1.5 m.m.t. Bearing in mind the artificial restraints from transportation problems, the normal trade level had been established at 3.8 m.m.t.

However, the current Canadian Government has suggested that 3.8 m.m.t. is too low, and that 5 m.m.t.—the amount exported in 1972–73 might be a more appropriate level.

Members of both the Canadian and U.S. delegations offered the proposition that a more effective grain weapon would be to raise the price of grain sold to the U.S.S.R., rather than to withhold the sales altogether.

COST OF PRODUCTION

The U.S. delegation started the discussion on costs of production with an outline of recent U.S.D.A. figures. In 1979 per acre production costs, excluding land costs, increased an average of 17 percent for the ten major crops. Nonland production costs for wheat are expected to rise by 23 percent.

The U.S. Department of Agriculture estimated that the cost of producing a bushel of wheat in the United States was $4.07 for a cash renter in 1979. The cost of producing the same bushel in 1980 is expected to be nearly a dollar higher—$5.01.

Sharp production cost increases in recent years have placed an enormous strain on farm producers. Crop prices have not kept pace with cost increases, and net farm income will be substantially lower in 1980. Cost rises have led to efforts to reduce fertilizer inputs and to delay machinery purchases.

The U.S. Administration next year will face some tough choices, according to one U.S. delegate. The decision on whether to tilt toward low support levels in order to maintain our competitiveness abroad or to provide more protection for producers will have to take into account such basic issues as equity for farmers, budget outlays, balance of payments and consumer food prices.

The delegation discussed the difficult problem of determining a fair value for land. Cost of production figures can vary considerably, with the major difference stemming from the quality of land and how it is valued.

A member of the Canadian delegation explained that although there is no scheme in Canada for determining a national average cost of production, local formulas could be expanded to yield a national figure. If both the United States and Canada could find an acceptable land cost factor, the variable costs of production for both countries should be about the same. Canada's fuel costs are lower, but machinery costs are higher.

Historically neither land costs nor a return for management have been included in cost of production figures. Governments do not realize that producers need a return on their total investment and not just enough to return direct production costs. The farmer has had to rely upon advances in research and development, and upon expanded production. He actually has had less for his family.

A Canadian spokesman contended that as representatives of rural areas, the delegates realized that continuing a cheap food policy would result ultimately in higher food costs or in no food at all. The Governments should concentrate on establishing a cost of production figure below which neither country would sell.

MARKET PERFORMANCE AND SHARES

The afternoon session began with a discussion of the implications of any market sharing or floor pricing scheme. A Canadian delegate stated his view that those at the meeting should strive to develop a system to assure the producer a price which would recover his cost of production. The elimination of irresponsible competition in world trade would help achieve that objective.

The United States and Canada need to explore ways of cooperating in establishing a wheat exporting stabilization system. Such a system, however, raises a number of important issues and problems.

An issue which must be considered in any cooperative effort would be the establishment of market shares. In determining market shares, the exporters must consider world demand. In addition, they must determine who the participants will be. In establishing shares, exporters should consider three possible methods: (1) a static share based on a percentage of the market at any given time; (2) shares based on a moving average reflecting market trends; (3) a static share with procedures for periodic adjustments.

Over the past 20 years the United States and Australia's percentages of the world wheat market have risen dramatically, whereas the Canadian percentage has changed little and the European Economic Community's percentage has gradually increased.

Determining market shares leads to the question of supply management. The Canadian delegation maintained that the Canadian Wheat Board, as the sole purchaser of wheat for export, provides a good mechanism for controlling supply. Even if supply could be controlled, the problem of substitution by users would arise. In addition, the recent experience with the embargo on shipments of grain to Russia raises questions about the enforcement of international cooperative agreements.

A final and key issue is reserve stocks. Producers must have adequate storage facilities if they are to effectively manage supply and thus affect prices.

In light of the serious problems which must be resolved before achieving international cooperation, the United States and Canada may wish to consider the alternative of management within each country. If the objective is to recover cost of production, Canada could do so domestically simply by increasing the initial payment for wheat. If prices are insufficient to cover the payment, the government contributes an amount equal to the deficit. The United States has the tools for a similar system with its floor price, target price and reserve system. In Canada an internal management system would probably be more acceptable to farmers.

A United States delegate acknowledged that problems exist in setting a floor price. One problem is that the minimum price often becomes a ceiling as it did in the 1950's and 1960's. If producers are to recover their costs and make some profit, the price must increase; however, a price increase encourages substitution by importing countries. In addition, high prices may stimulate over-production.

To achieve a reasonable floor price, producers must convince international trade negotiators that producers only, rather than producers and consumers, should negotiate international agreements.

Canada and the United States should consider other actions which might contribute to achieving a reasonable price for wheat, such as convincing developing countries to provide their own reserve storage facilities. These countries also have inadequate milling, transportation and port systems, and exporters could encourage development of these facilities.

In considering the alternative of an internal supply management system, a U.S. delegate indicated that the United States may have the tools available but that such a system may well be politically impossible.

The Canadian and United States delegates discussed potential market growth due to the expected large population increase and the need to develop markets for grain outside of the food chain, such as gasohol. The U.S. delegates emphasized that their government and industry had been developing markets for the past 20 years and questioned Canada's effort. A Canadian delegate responded that traditionally Canada had not developed markets but that the Canadian Wheat Board does fund the Canadian International Grains Institute which demonstrates the use of grain to prospective foreign purchasers. In addition to its $400,000 contribution to the Institute, the Board spent $48,000 in market development in 1978–79.

The delegates discussed setting a floor price by increasing the U.S. loan rate. However, the United States delegates were concerned that such action would generate increased production and price undercutting by its exporting competitors. The Canadian delegates stated that at the meeting in Winnipeg their Minister of Agriculture pledged his government's cooperation in devising a fair and practical system to increase prices. They also stated that if a floor price were agreed to, Canada would not undercut it.

A Canadian delegate indicated that in his communications with Australia and Argentina, those nations had stated that they wanted to set a floor price. However, he asserted that all the major producers want to compete against each other in developing markets and that Canada had done so by its renewed transportation effort. Exporters should set a realistic floor price which does not encourage production but does provide some protection for farmers. The exporters should remain competitive but not sell below a certain price. They should resort to a market sharing mechanism only when prices hit the established floor.

PRODUCTION AND SUPPLY CONTROL

The afternoon session continued with a discussion of the need for increased co-operation between Canada and the United States in controlling wheat production and supply. A member of the Canadian delegation began the discussion by noting the consensus of the two delegations on a genuine desire to co-operate in the area of production and supply. Any such co-operation must focus on two potential areas of conflict: (1) the increase in production if prices become too high, and (2) the impact on developing countries.

The Canadian delegation proceeded to outline their means of influencing domestic production. While indicating there is no direct control over production, they stated that the five member Canadian Wheat Board [CWB] can influence the production of grains since the CWB is the sole selling agency for most Canadian grains and the Board has authority to assign each farmer a marketing quota. The marketing quota of a farmer depends upon the size of his farm and the national quota level that the CWB has established. The amount of quota acreage a Canadian farmer receives is based upon land seeded to oilseeds, forage, grains, plus land in summer fallow. (Not all grain comes under the CWB jurisdiction so some leakage does take place). The Board also regulates the flow of grain through the country elevators by controlling the transportation of all grains from the primary elevators to domestic processing plants and export points.

While the Canadians find the quota system effective, they instituted a program in 1970 called LIFT [Lower Inventory for Tomorrow]. This program deliberately reduced acreage and hence grain inventories. A Canadian delegate noted that wheat production in Canada has stabilized or declined in periods of high inventories and over supply.

It was recognized that the United States does have a mechanism to influence production in terms of a set aside and diversion payments, but a comprehensive overview of the U.S. farm program was not presented. An American delegate asked what assurances would the United States receive from Canada to help bear the burden of production controls if the United States raised its loan rate. He was concerned that the United States would be forced to absorb the surplus production of world grain.

In response the Canadians assured the U.S. delegate that Canada could not significantly expand their wheat production if prices were increased, and any substitution between grains could be controlled through the delivery quota system. Any increase in yields could be handled the same way.

The Canadians noted, on the other hand, that the American system is rather free. The farmer has the choice of being in or out of the government program. In addition, when the set aside program is not in effect, production increases dramatically. Concern was also shown on the part of a Canadian delegate as to the existence of internal production controls, and the willingness to implement them, in other producing countries, including the European Community.

A U.S. delegate noted not only the production differences between the two countries, but between regions within the United States. An increase in prices will raise the level of production in America. He stressed that farmers are going to have to realize that grain reserves will be a policy of the Government.

The issue of grain production in foreign countries when prices increase, especially in Argentina and Australia, was discussed. If the United States and Canada cooperated and prices increased, production in other countries would expand. Some form of agreement between all major exporting countries would have to be reached to assure that an orderly market was maintained.

Concern was expressed by both Canadian and U.S. delegates about the impact of such a scheme on developing countries. Exporting nations would have to work together to assure that any pricing cooperation would not seriously hinder a less developed country's ability to acquire food stocks for its population. Concern was also expressed by some delegates that if prices rose, some countries would sell wheat on the world market in order to obtain hard currency at the expense of their citizens.

The delegations again expressed concern about the problem of substitution of other grains for wheat when prices are raised.

The following table indicates United States and Canadian wheat production from 1970/71 through 1980/81.

UNITED STATES AND CANADIAN WHEAT PRODUCTION, JULY/JUNE YEARS, 1970/71–1980/81

[In millions of metric tons]

	United States	Canada
1980/81 [1]	57.0–66.5	17.5–21.5
1979/80	58.3	17.7
1978/79	49.0	21.1
1977/78	55.4	19.9
1976/77	58.3	23.6
1975/76	57.8	17.1
1974/75	48.9	13.3
1973/74	46.4	16.2
1972/73	42.0	14.5
1971/72	44.0	14.4
1970/71	36.8	9.0

[1] Forecast as of May 13, 1980.

Source: Compiled from USDA, FAS, "Foreign Agriculture Circular; Grains," May 13, 1980, Aug. 20, 1979, Jan. 2, 1979, November 1978, and May 1976.

PRICE OBJECTIVES AND EXPORT COOPERATION

The final topic of discussion was the consideration of recommendations for arriving at a common understanding in terms of a price objective and exporter co-operation.

A member of the Canadian delegation recommended: (1) establishing a basis for setting a realistic floor price using factors for land and management that wouldn't excessively bring about substitution of other crops but would provide a floor to help small farmers remain in business and (2) encouraging competition above that floor price regardless of market share. Market shares would be triggered if the world price hit the floor price. It was stated by the Canadian delegate that while the details of floor price and market shares would have to be worked out, the basic intent would be to provide farmers with some security.

A member of the U.S. delegation suggested the need for action to be taken by the delegates and recommended the adoption of a resolution saying that representatives of the governments of the two countries seek to establish a Joint Wheat Export Stabilization Commission, the purpose of which is to: (1) stabilize prices above the cost of production (2) cooperate in market development efforts and the sharing of these costs and (3) work to secure cooperation of other countries in carrying a larger share of the world's food reserve.

Members of the Canadian delegation expressed caution about the consultative nature of the group and the propriety of a joint communication. It was indicated that it had been the tradition of the Canada-United States Interparliamentary Group that each country reach its own conclusions, even though they may be the same, in order to promote a free exchange of ideas and opinions.

A Canadian delegate indicated that the Cabinet Minister responsible for the Wheat Board supported the objective being discussed by both countries and the presence of the Minister at future discussions would be very helpful.

There was general agreement by the delegates of both countries concerning the thrust of the U.S. delegate's proposal. It was therefore concluded that the delegates of both countries would seek the establishment of a Joint Canadian-United States Wheat Export Coordinating Commission and extend an invitation to Australia and Argentina to join the effort. The purpose of the Commission would be to: (1) formulate policies to end the export of wheat at prices below the cost of production (2) find a means of cooperating in market development efforts and in sharing the costs, and (3) to coordinate efforts to secure participation of importing nations in carrying a larger share of the world's food reserve.

There was further discussion about the formation of such a commission. A Canadian delegate indicated that membership from Canada would likely be from the government sector rather than private.

A U.S. delegate indicated that the Commission could consist of three or four members from each country. The Commission could recommend levels for cost of production and floor prices and have authority to sell export certificates at the difference between the current price and the agreed upon export price. Proceeds of these certificates would then be refunded back to the producers. Individual countries would be responsible for controlling production.

Delegates considered the need for future discussions as necessary and indicated that a meeting in February or March should be pursued.

O