



SILVERWEED



STICKY GERANIUM



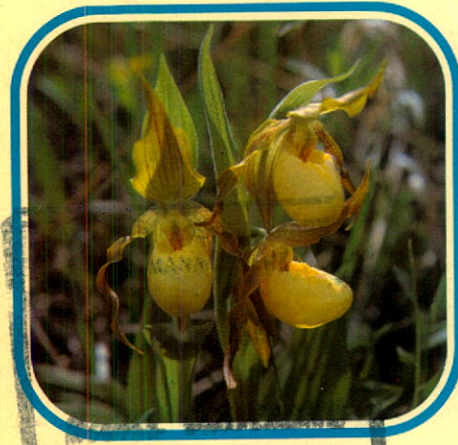
PRAIRIE CROCUS



PRAIRIE LILY



PRAIRIE ROSE



YELLOW LADY'S SLIPPER



WHITE EVENING PRIMROSE



LUNGWORT

73<sup>rd</sup> Annual Report

To the Shareholders of



For the year ended July 31,  
1979





BROWN-EYED SUSAN



SCARLET PAINTBRUSH



HAREBELL



WATER CALLA



VEINED DOCK



SHRUBBY CINQUEFOIL



OBLONG-LEAVED GENTIAN



BUCKBEAN



SMOOTH BLUE BEARDTONGUE



SPOTTED CORALROOT



ROUND-LEAVED ORCHID



MARSH-MARIGOLD



# United Grain Growers Limited



**COVERS:** In line with a policy established four years ago, the directors of United Grain Growers again present a cover to the annual report that they hope will be of interest and permanent use to farm people. In past years, 63 kinds of field crop seeds, 26 breeds of beef cattle, 51 kinds of weed seeds and 23 breeds of horses have been illustrated. This year, 44 kinds of wildflowers of the Prairies are shown.

Country people know wildflowers as no others. Growing in crops, they are weeds while elsewhere they are plants of beauty. Wildflowers are the plants that bloom just to bloom: they give their beauty, their fragrance, their nectar just to give. They form seeds and spread and create merely to be. In a civilization thrusting toward worldly goals, it is good to be aware of aims different from those of man. It revitalizes one to touch a world of wildflowers where purpose involves *being* rather than doing or achieving.

*We are the roadside flowers,  
Straying from garden  
grounds, —  
Lovers of idle hours,  
Breakers of ordered bounds.*

Bliss Carman

This cover will be reprinted by the GRAIN GROWER, your Company's farm business digest, and a short text describing each flower will accompany the pictures. A copy of the GRAIN GROWER reprint is available at \$1.00. Send a self-addressed envelope to Wildflowers, Box 6600, Winnipeg, R3C 3A7. Discounts on bulk quantities.

## Associated Companies

United Oilseed Products Ltd.

Prince Rupert Grain Terminal Consortium Ltd.

## Contents

- 2 Board of Directors and Officers
- 3 Highlights
- 4 Report of the President on behalf of the Board of Directors
- 10 Elevator Operations
- 20 Terminal and Grain Marketing Operations
- 23 Feed Operations
- 24 Public Press Operations
- 24 Associated Companies
- 26 Other Items
- 27 Conclusion
- 29 Charter and Capital Stock
- 34 Financial Statements
- 40 Comments on Financial Statements
- 44 Ten-Year Comparative Summary
- 46 Appendix A — 1979-80 Budgets for New Elevator Construction
- 47 Appendix B — Country Elevator Closures
- 49 Appendix C — Dimensions of the Box-Car Shortage

## Board of Directors

A. M. Runciman  
Abernethy, Sask.

Allan Smith  
Red Deer, Alta.

H. M. Dickson  
Warner, Alta.

L. F. Hehn  
Markinch, Sask.

W. G. Morken  
Sturgis, Sask.

J. G. Omichinski  
Oakville, Man.

Sam Sych  
Brownvale, Alta.

T. M. Allen  
Taber, Alta.

Walter Van De Walle  
Legal, Alta.

W. J. Craddock  
Fannystelle, Man.

R. J. Baker  
Flaxcombe, Sask.

Roy Cusitar  
Russell, Man.

## Officers

A. M. Runciman, *President*, Winnipeg, Man.

Allan Smith, *First Vice-President*, Red Deer, Alta.

L. F. Hehn, *Vice-President*, Markinch, Sask.

W. J. Craddock, *Vice-President*, Fannystelle, Man.

John Wachal, *General Manager*, Winnipeg, Man.

J. G. L. Bennett, C.A., *Treasurer*, Winnipeg, Man.

J. A. White, *Secretary*, Winnipeg, Man.

J. H. Candlish, *Manager, Country Operations*, Winnipeg, Man.

E. V. Titheridge, *Manager, Terminal Operations  
and Grain Marketing*, Winnipeg, Man.

K. L. Matchett, C.A., *Comptroller*, Winnipeg, Man.

---

Auditors: Price Waterhouse & Co.

---

Head Office, Winnipeg, Canada



# Highlights

## Financial

	1979	1978
Sales and revenue from services .....	\$890,288,000	\$782,445,000
Operating revenues .....	78,385,000	69,629,000
Earnings before patronage dividends and income tax .....	10,597,000	6,852,000
Net earnings .....	6,367,000	3,025,000
Working capital .....	18,460,000	24,473,000
Capital expenditures — net .....	16,309,000	13,643,000
Total investment in fixed assets .....	128,450,000	111,211,000
Accumulated depreciation on fixed assets .....	46,757,000	42,680,000
Paid-up share capital .....	13,661,000	12,538,000
Shareholders' equity .....	48,690,000	42,016,000
Cumulative total of shareholders' dividends .....	16,092,000	15,303,000
Cumulative total of patronage dividends, including interest thereon .....	48,546,000	46,214,000

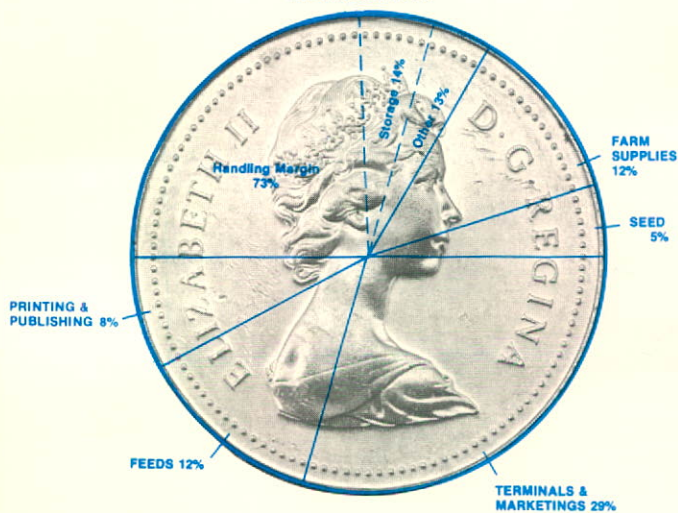
## Statistical

Country handling — in tonnes .....	3,612,000	4,170,000
Elevator licensed storage capacities — in tonnes		
Country .....	1,639,000	1,666,000
Terminals .....	424,000	424,000
Number of country elevator manager-units (total elevators 628 in 1979 and 648 in 1978) .....	402	420
Number of shareholders .....	92,892	87,015
Number of shareholders' locals .....	299	306

### TOTAL REVENUES \$78,385,000 = 100%

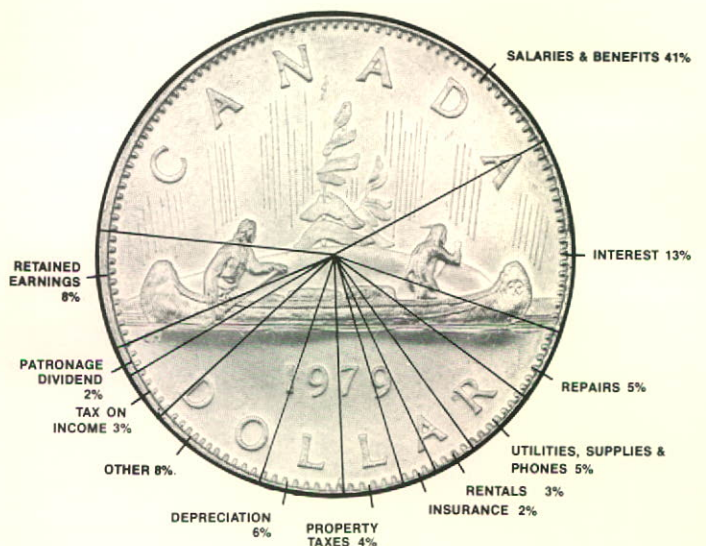
Your Company's Operating Revenue of \$78,385,000 was earned this way

COUNTRY GRAIN 34%



### TOTAL DISTRIBUTIONS \$78,385,000

Your Company's Operating Revenue of \$78,385,000 was distributed this way





# Report of the President

on behalf of the Board of Directors



A. M. RUNCIMAN  
President

The 1979 fiscal year was a good one for United Grain Growers. Country handlings dropped, however, austere cost containment and improved revenues in other operating divisions and an associated company resulted in the second best financial results in your company's 73-year history.

Profits of \$10.6 million\* were up sharply from the \$6.9 million of the previous year. The improved profits have allowed for an increase in patronage dividend to \$1.9 million. Record capital expenditures of \$17.7 million, however, reduced working capital at the end of the 1979 fiscal year to \$18.5 million.

In summary:

- Terminal earnings of \$4.1 million improved by \$0.8 million even though handlings dropped from 2.9 million tonnes to 2.7 million in the 1979 fiscal year. The improvement in profits was due to higher prices for screenings, improved tariffs, and more efficient operations.

- United Oilseed Products Ltd. had net earnings of \$4.8 million, after providing for deferred income tax and preferred share dividends. UGG is one-third owner of this company and its share is \$1.6 million.

- Combined results of country elevator operations — grain, and farm supplies — in the 1979 fiscal year showed a profit of \$1.2 million, down \$2.6 million from the year previous. Country grain operations, however, suffered a loss of \$2.5 million, more than \$3 million down from the 1978 fiscal year. Major causes were grain handlings down from 4.2 to 3.6 million tonnes, the interest costs of larger inventories of grain and higher interest rates, and increased costs of repairs, insurance and salaries.

- Farm supply sales were a record \$39.6 million and profits increased to \$3.6 million. Tonnage sales of fertilizer were a record, up 13,000 tons from the year previous and well over 100,000 tons.

\*Before patronage dividend and income tax.

- United Feeds had record sales of 264,000 tonnes and profits increased to an all-time high of \$1.8 million.

- Seed sales in the 1979 fiscal year were up slightly, however, profits of \$0.6 million were just under those of the previous year.

- The publishing and printing profits of Public Press increased \$0.2 million to \$0.6 million, mainly due to record advertising revenue of \$3.9 million in *Country Guide* and *Cattlemen* magazines.

- Your company realized an insurance recovery of \$1.3 million when three elevators this past fiscal year were destroyed by fire.

**Despite 1979 being a very successful fiscal year, three concerns, related mainly to inflation, were of worry to the directors of United Grain Growers and continue to present a problem in the current year.**

Interest rates set new records this past year and every indication is for pressure of high rates until the mid-1980s. The result is the cost of long term borrowing is at an unrealistically high level and this type of debt should not be resorted to except in the case of emergency.

Further, because of high interest rates on borrowed money, the cost of carrying grain and farm supply inventories, and accounts receivables for farm supplies, feed and seed, will be at record levels.

For these reasons the directors have instructed management to be cautious about higher levels of inventories and to examine measures that will hasten payment of overdue accounts.

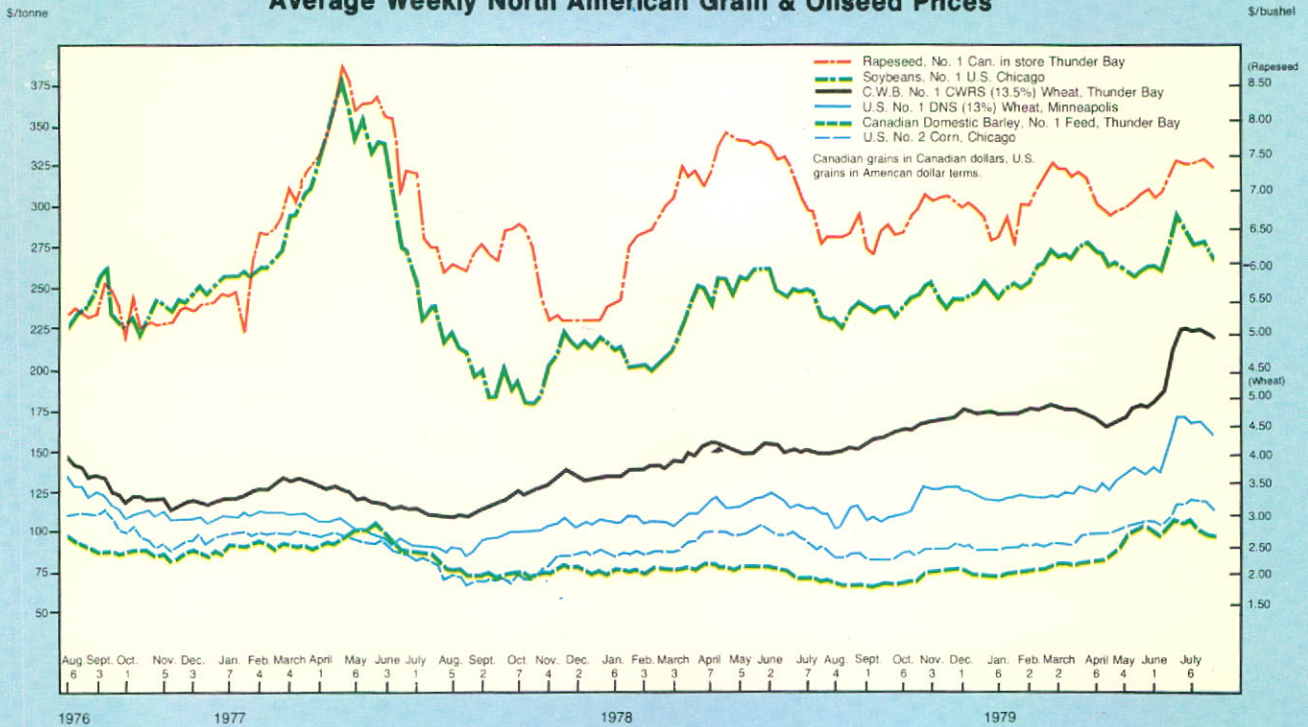
Capital expenditures are a second pressing concern. A review of all areas of company operations indicates there is a great need of capital for new and improved facilities and equipment in the terminals, and country and feed operations.

A conservative estimate, taking into account the need to completely modernize Terminal M at Thunder Bay, the plan for country ele-



Figure 1

Average Weekly North American Grain & Oilseed Prices



vator modernization, and the desire to complete phase 2 of the Lethbridge feed mill and make further expenditures at the Vancouver terminal, would bring the total cost of capital requirements to something in the order of \$20 million.

Because of the high cost of interest on long-term funds, the capital must come from earnings. Early projections for the 1980 fiscal year, less commitments for repayment of current debt and dividends, indicate earnings will be well short of \$20 million. For this reason, some worthy projects will have to be deferred for one, two and, possibly, three years.

As noted earlier, the third area of concern is that country grain operations did not have a very satisfactory year in 1978-1979. A major problem was the drop in throughput, with handlings in 1979 down more than

500,000 to only 3.6 million tonnes. Despite the current transportation problems and the smaller crop this year, UGG directors feel your elevator system will handle at least 4 million tonnes in the 1980 fiscal year.

Handling tariffs at 1979 levels will make it more difficult to earn a profit on country grain operations in the current crop year.

**Western Canadian farmers in 1978** harvested a big crop despite serious delays due to heavy rains just as harvest began.

Total Prairie output of the major grains and oilseeds was 37.6 million tonnes in 1978, the second largest crop ever and just under the record 38 million tonne crop of 1976. The ability of farmers to produce despite adverse conditions, indicates the improved management, farming techniques and machinery now widely

used to improve unit efficiency on the Prairies.

A disappointing aspect of the 1978-79 crop year was the decrease in export movement. Total exports of Canadian grain and oilseeds dropped to 19 million tonnes, down 9 per cent from the 21 million tonnes cleared the previous year. The total amount of principal grains and oilseeds exported from Canada during the past crop year was the fourth highest. The record of 22 million tonnes was set in the 1972-73 crop year.

Exports of wheat were 11 million tonnes, a drop of 18 per cent from the previous year. Durum wheat exports were 1.4 million tonnes and 31 per cent below the 1977-78 levels. Oat clearances of 13,000 tonnes were sharply down from the previous year's exports of 89,000 tonnes.

Clearances of 3.6 million tonnes of



**Table 1**  
**Farm Net Income for the Prairie Provinces (1968-1978 incl.)**  
**(thousands of dollars)**

Year	A Cash receipts	B Income in kind	C Supple- mentary payments	D Realized gross income (A+B+C)	E Operating and deprec.	F Realized net income (D-E)	G CPI	H Deflated net income (F/G)
1968	2,051,889	46,149	7,760	2,105,798	1,370,535	735,263	90.0	816,959
1969	1,801,815	49,711	8,839	1,860,365	1,372,213	488,152	94.1	518,759
1970	1,726,861	45,802	57,378	1,830,041	1,317,498	512,543	97.2	527,308
1971	2,040,868	42,623	18,015	2,101,506	1,440,733	660,773	100.0	660,773
1972	2,630,490	47,907	4,433	2,682,830	1,604,110	1,078,720	104.8	1,029,313
1973	3,324,196	59,065	8,138	3,391,399	1,941,483	1,449,916	112.7	1,286,527
1974	4,607,627	54,829	27,460	4,689,916	2,455,175	2,234,741	125.0	1,787,793
1975	5,281,284	52,098	190	5,333,572	2,894,020	2,439,552	138.5	1,761,409
1976	5,031,389	55,296	0	5,086,675	3,404,687	1,681,998	148.9	1,129,616
1977	4,977,764	59,919	0	5,037,683	3,609,125	1,428,558	160.8	888,407
1978	5,860,955	69,610	0	5,930,565	4,143,312	1,787,253	175.2	1,020,122

Total cash receipts (Column A) include receipts from sales of crops and livestock, Canadian Wheat Board cash advances, provincial income stabilization programs, dairy supplementary payments and deficiency payments. It does not include cash receipts from sales to other farms.

Income in kind (Column B) includes the imputed value of goods produced and consumed on the farm and the imputed rent of the farm house.

Supplementary payments (Column C) includes any additional payments to farmers by the government. The realized gross income (Column D) is the total of the first three columns.

Operating and depreciation charges (Column E) includes farm business costs incurred during the year regardless of whether they are paid for in cash or accumulated as new debt. The estimates of depreciation charges on farm buildings and machinery are calculated on a replacement cost basis. Taxes on farm land and buildings are considered operating costs.

Realized net income (Column F) is the difference between Columns D and E. This is the amount of money farmers have available for personal taxes, living expenses and new investment.

The Consumer Price Index (Column G) is a measure of the effect of inflation on the purchasing power of the dollar. The C.P.I. expresses the cost of purchasing a fixed "basket" of goods and services in the base year (in this case 1971).

The deflated net income (Column H) is the realized net income divided by the C.P.I. It gives the purchasing power of the current year's farm income in 1971 dollars.

Source: Statistics Canada, *Farm Net Income*, unpublished data. Figures are totals for Manitoba, Saskatchewan and Alberta.

barley represented an increase of 205,000 tonnes over the previous year.

Export of 494,000 tonnes of flaxseed was a 95 per cent increase over the 253,000 tonnes during the 1977-78 crop year.

Rapeseed clearance set a new record of 1.7 million tonnes. This is the largest since the record of 1.2 million tonnes was established in the 1972-73 crop year.

Farmer deliveries of principal grains and oilseeds totalled 23.7 million tonnes. This is down some 4.3

million tonnes or 15 per cent less than the record volume established in the 1977-78 crop year when 28.1 million tonnes were delivered.

Deliveries of individual grain with the previous year's figures in brackets were as follows: Wheat 13.0 (17.7); durum wheat 1.5 (1.8); oats .38 (.76); barley 5.3 (5.2); rye .25 (.26); flaxseed .45 (.50) and rapeseed 2.9 (1.8) million tonnes.

**The net income of Prairie farmers** has not kept pace with rising costs. The income of \$1,787 million in 1978 is actually worth less in terms of 1971

dollars than the \$1,078 million of realized net income of Prairie farmers in 1972.

The directors of United Grain Growers each year attempt to find ways to depict the situation of Prairie farmers in as accurate a manner as possible. Tables 1 and 2 have been prepared for this purpose and, if studied, will give shareholders an indication why receipts have fluctuated as they have.

Table 1 compares total net farm income in the three Prairie Provinces. Of particular interest are the last three



**Table 2**  
**Farm Cash Receipts in the Prairie Provinces — Selected Items (1968-1978 incl.)**  
(millions of dollars)

Year	Wheat*	Oats*	Barley*	Flax	Rapeseed	CWB net** cash advances	Total*** Crops	Total livestock
1968	893.08	25.83	113.85	25.69	33.20	52.62	1,210.58	824.00
1969	512.21	26.63	85.31	56.22	53.65	157.91	950.46	819.12
1970	548.84	15.95	137.13	59.15	96.76	-105.40	818.85	888.43
1971	694.89	28.16	199.97	57.01	134.45	- 84.57	1,107.57	922.29
1972	917.74	26.67	212.31	53.72	151.22	- 27.45	1,430.34	1,095.45
1973	1,168.13	37.27	319.03	119.06	252.28	6.47	1,734.42	1,470.83
1974	1,984.74	46.74	542.27	135.44	333.18	11.06	2,910.79	1,579.70
1975	2,436.37	79.45	597.85	81.34	257.58	- 13.90	3,558.75	1,671.55
1976	1,969.64	75.44	485.86	77.55	224.51	58.44	3,216.25	1,744.11
1977	1,707.60	65.76	416.09	90.23	443.08	5.67	3,042.18	1,853.10
1978	1,769.09	47.66	475.70	104.89	590.94	17.67	3,425.81	2,480.65

\*Figures for wheat, oats and barley are the sum of direct cash receipts and Canadian Wheat Board final payments.

\*\*The figure for C.W.B. cash advances is the net amount of money borrowed by farmers under the Prairie Grains Advance Payments Act. The figure is positive when farmers borrow more money than they repay and negative when they repay more money than they borrow.

\*\*\*The figure for total crops includes revenues from crops sales, C.W.B. net cash advances and deferred grain receipts.

Source: Statistics Canada, *Farm Cash Receipts*, 21-001

columns where realized net income is divided by the consumer price index to arrive at the deflated net income. The figures show that the last two calendar years, in terms of what farmers can buy with the income earned, have been the worst since 1971.

Table 2 shows the changes in farm cash receipts from specific grains and for total livestock for different calendar years.

Even the most cursory glance at the tables shows farm income is characterized mainly by fluctuations. In 1968, farm income was declining from its previous peak in 1966. It reached a low in 1970 and then began to increase sharply until it hit a new high in 1975. It then fell sharply in 1976 and 1977, but recovered slightly in 1978.

The years 1968 and 1969 were poor ones for grain growers. A worldwide glut of food due to increasing productivity led to falling prices, declining exports and large carryovers. Cash receipts and net income

both declined. Grain growers relied heavily on advances from the Wheat Board.

The year 1970 was a memorable year but a confusing one. Cash receipts from wheat sales increased somewhat due to rising prices. In February the government introduced the Lower Inventories For Tomorrow (LIFT) program which paid farmers six dollars an acre not to grow wheat. This led to a sharp decline in the acreage seeded to wheat in the 1970-71 crop year and an increase in cash receipts from supplementary payments. However because farmers had to repay cash advances to the Wheat Board their total gross income dropped. Operating and depreciation costs also fell, though, and this led to a small increase in realized net income for the year.

The years from 1971 to 1973 saw rising income due to higher grain prices, good crops and record exports. Farm prices for wheat and barley reached a peak in 1973 and then began to decline slowly.

Poor yields led to reduced production in the 1974-75 crop year. However, cash receipts and net income continued to rise. The large supplementary payments in 1974 were made mainly to livestock producers under hog and beef stabilization programs. Russian wheat purchases created strong export demand in 1975 and farm incomes reached their peak.

Record yields and production of wheat and barley caused depressed prices in the 1976-1977 crop year. Meanwhile rising input prices continued to push up operating costs. As a result farm net income fell sharply in 1976 and 1977.

During this entire period prices and cash receipts for rapeseed improved steadily. Then in the 1975 crop year rapeseed prices fell and farmers were left with a large carryover. As a result seeded area and production were cut in half in 1976. Prices recovered the following year and cash receipts from rapeseed sales in the 1977 crop year were



nearly double the 1976 receipts.

In the 1978 crop year higher prices for grains and increased marketings led to a modest improvement in farm net incomes.

Since 1973 inflation has been a significant factor in the economy and changes in the dollar value of farm income should be interpreted in the light of changes in the purchasing power of the dollar. After increasing at a rate of between three and four per cent per year during the 1960s, the average annual CPI (Consumer Price Index) jumped by 7.5 per cent in 1973. In 1974 and 1975 it increased by 11 per cent. Since then it has been growing at a rate of between 8 and 9 per cent.

Farm net income has not kept pace with rising prices. As mentioned, realized net income was higher in 1975 than in 1974, but the deflated net income in 1975 was lower. The

realized net income of \$1,787 million in 1978 is actually worth less in terms of 1971 dollars than the realized net income of \$1,078 million in 1972.

However, it should be noted the effect of inflation on the purchasing power of farm incomes is only an accounting problem. No one can say it is inflation that has caused farm incomes to decline. It is just as possible that if there had been no inflation in the last few years grain prices would have declined even more rapidly and farmers would have been just as badly off.

Still, there are ways in which inflation does affect a farm business. As input prices rise farmers need more money to pay for them. This means that they have to keep more cash on hand for working capital.

More importantly, inflation changes the value of different assets. It can make a millionaire out of a farmer in

one physical position and ruin another.

The farmers who have suffered most from inflation are the ones who sold their land in 1971 or 1972 and bought fixed-interest securities. They missed out on the chance for capital gains on their land while inflation ate away at the real value of their investments.

On the other hand, farmers who borrowed money to buy land in 1971 have seen the value of their property increase while the real value of their mortgage payments has dropped. The farmer buying land at the peak of the inflationary boom in the expectation that prices will keep on rising could be ruined if inflation slows down.

Expectations are the key to the problem of inflation. If farmers knew that inflation was going to continue at a steady rate for the indefinite future

*Two of five elevator managers who handled over 25,000 tonnes (1,000,000 bushels) of grain during the crop year. B. A. Thomas (left) Cardston, Alberta handled 28,298 tonnes and I. E. Ramsden, Naicam, Saskatchewan handled 25,274 tonnes.*

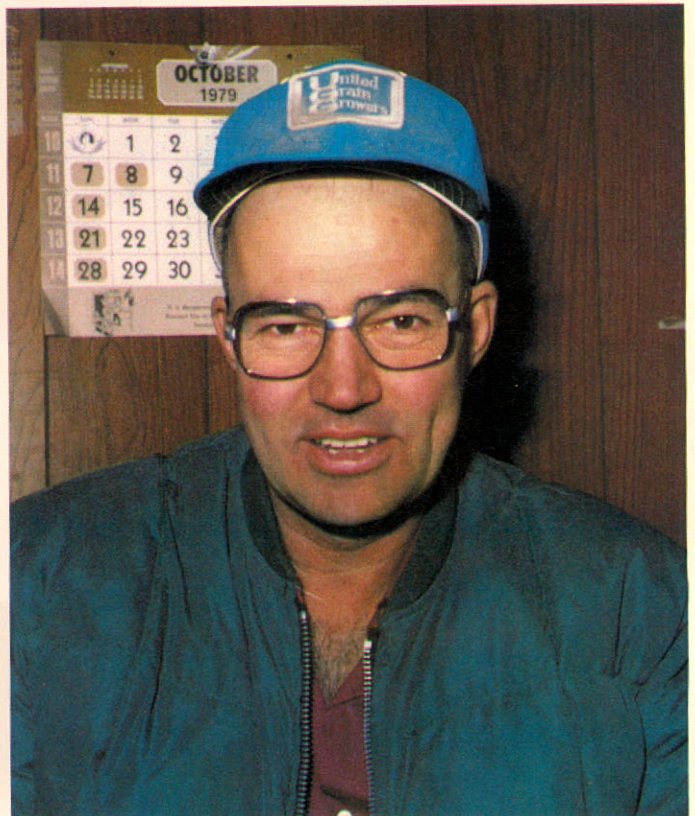
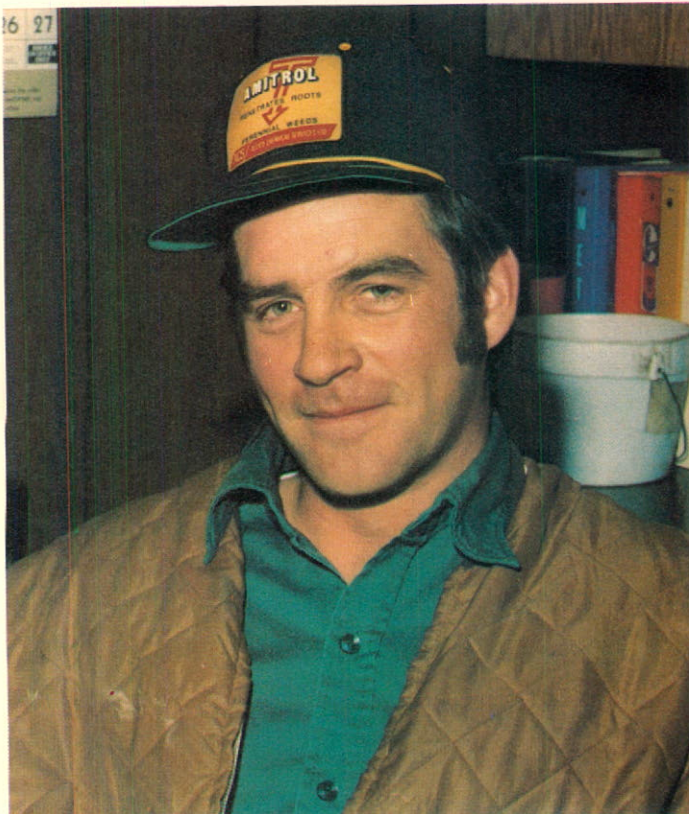




they could plan around it. Lenders could charge higher interest rates to compensate for the declining value of the dollar. Borrowers could count on rising prices to enable them to pay these interest rates.

But with the constantly changing rate of inflation Canada has been experiencing in the last few years this sort of planning is impossible. Just as is the case with your company, inflation is just one more source of uncertainty in the already painfully uncertain business of farming. Thus, it is essential that any policy the government adopts to bring inflation back to tolerable levels must be both steady and gradual.

Three other elevator managers who handled over 25,000 tonnes of grain were: J. G. May (top right) Landis, Saskatchewan, handled 26,407 tonnes, R. H. Pickering (bottom left) Birch Hills, Saskatchewan handled 25,098 tonnes, and W. J. Rawleigh, Fort Macleod, Alberta handled 32,368 tonnes.





# Operations Review

## Elevator Operations

The main business of United Grain Growers is to handle, merchandise and store grain in western Canada.

Elevators perform an essential function in the movement of grain. In a sense, they are a public utility and have been so recognized in the statutory declaration that Canadian elevators are "works for the general advantage of Canada."

Country elevators are premises where United Grain Growers acts as agent for the Canadian Wheat Board, and pays the initial price for wheat, oats and barley to be sold by the Board. These elevators are also merchandising premises where your company buys and sells rapeseed, flax, rye, feed wheat, feed barley, feed oats and certain special crops grown under contract, and keeps a stock for export or domestic trade. At the terminals, United Grain Growers

also owns some grain and screenings in its capacity as a merchant.

## Country Elevators

United Grain Growers operated country elevators at 80 points in Manitoba, 165 in Saskatchewan, 167 in Alberta and 3 in British Columbia during the 1979 crop year.

The total capacity of the UGG country system, as licensed by the Canadian Grain Commission, is 1.65 million tonnes (wheat equivalent 60 million bushels).

Capital expenditures in country operations amounted to \$5.4 million this year compared to \$4.5 million the year before. Major expenditures on projects were: elevator replacements \$1.7 million; major renovations \$1.1 million; annexes and bins \$1.1 million; farm supply facilities \$500,000; and miscellaneous projects \$1 million.

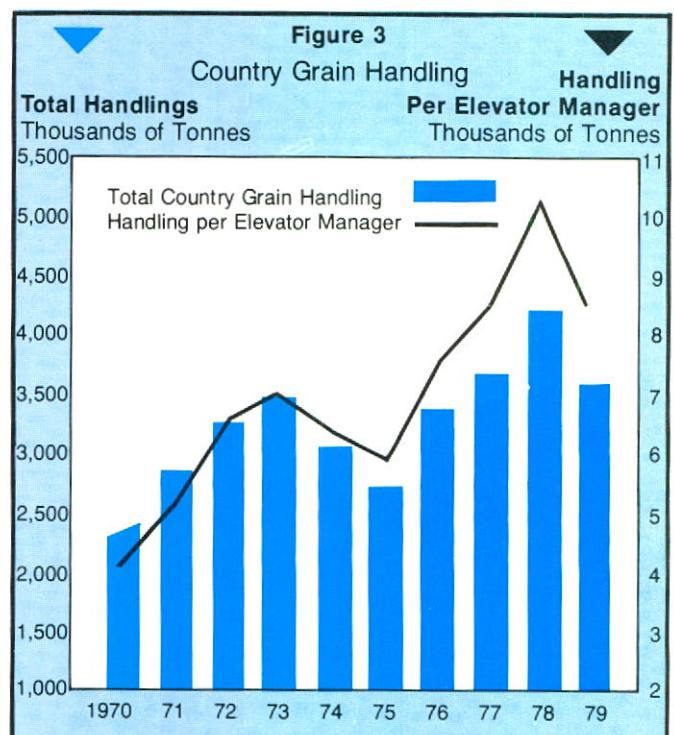
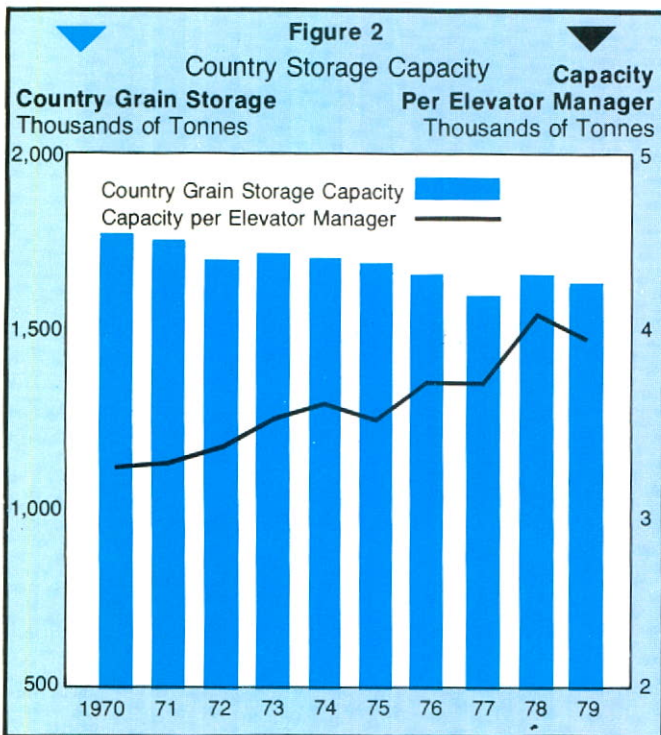
A new elevator was built at Elrose,

Saskatchewan, and starts were made on new elevators at Codette, Saskatchewan, and at St. Paul and Olds, Alberta. Additional storage was added at Beechy, Manitou, Neepawa, Whitewood and Bow Island.

During the past year 17 elevator stations were vacated under rationalization-exchange programs with other companies or through outright closures.

Construction costs continued to climb. Even though \$5.4 million was spent this past year, it was far less than needed to maintain your elevator system. The costs of completely

*\*Other country structures include over 1,000 annexes, 16 feed mills and a pet food plant, 18 anhydrous ammonia plants, 6 bulk blend fertilizer plants, 9 seed cleaning plants, a number of seed warehouses and sheds. There are also dwellings for elevator managers of which your company owns some and leases others from an investment firm.*





overhauling an elevator are close to triple those of 1970. A major renovation costs as much as \$250,000 and a new elevator complex of 3,500 tonnes (140,000 bushels) costs over \$600,000. If your company were to invade a new grain market, the costs would exceed \$800,000.

In the 1979 fiscal year, your company handled 3.6 million tonnes of grain compared to 4.2 million the year previous. Higher handling tariffs and satisfactory margins from open market feed grain movement actually increased revenues \$1.5 million above the previous year, however, not enough to offset sharply higher costs. Some of the higher costs included an additional \$700,000 for repairs, \$800,000 for salaries, \$600,000 for insurance on inventories and properties, and \$1.5 million for interest. The result was a loss in grain operations of \$2.5 million compared to a profit the previous year of \$1 million.

The drop in tonnes of grain handled was a direct result of grain transportation problems. With continuing transportation difficulties and tariff levels little changed from last year, the outlook for marked improvement in earnings from handling grains through your country elevators is not encouraging.

**A large crop was produced in 1978.** Production of the principal grains amounted to 37.6 million tonnes, second only to the record 38.5 million tonnes produced during the summer of 1976. A particular challenge to both the marketing and handling systems was the more than doubling, from the average of the previous five years, of the quantity of rapeseed production.

The quality of the 1978 crop was slightly better than that of the year previous. The early harvest was generally of excellent quality while later-harvested crops showed significant quality deterioration particularly in north central Saskatchewan and the north half of the province of Alberta.

The 1978 crop together with on-farm carryover from the previous year

**Table 3**  
**Cost per Tonne\***  
**of Country Grain Handling**  
**through United Grain Growers**

	1975-76	1976-77	1977-78	1978-79
Millions of Tonnes Handled .....	3.41	3.73	4.17	3.61
Elevator Costs per Tonne Handled				
<b>DIRECT OPERATING EXPENSES</b>				
Salaries — including assistant managers, casual help, overtime, bonuses and benefits .....	\$2.26	\$2.30	\$2.18	\$2.68
Moving, travel, meetings .....	.03	.04	.03	.04
Repairs .....	.51	.63	.39	.64
Annex unloading .....	.04	.06	.04	.06
Insurance (grain and merchandise) ..	.11	.15	.06	.13
Heat, power and water .....	.12	.12	.12	.16
Postage, stationery and supplies .....	.02	.02	.02	.03
Phone, wire, telex .....	.04	.04	.04	.05
Exchange .....	.04	.05	.05	.05
Interest on current operating funds ...	1.32	1.17	1.03	2.40
Miscellaneous .....	.05	.04	.06	.06
	<hr/>	<hr/>	<hr/>	<hr/>
	4.54	4.62	4.02	6.30
	59%	58%	58%	63%
	<hr/>	<hr/>	<hr/>	<hr/>
<b>DIRECT FIXED EXPENSES</b>				
Property rentals .....	.04	.04	.05	.06
Building insurance .....	.08	.13	.06	.19
Taxes .....	.46	.44	.41	.44
Interest on capital investment .....	.19	.22	.26	.46
Depreciation .....	.41	.40	.40	.48
	<hr/>	<hr/>	<hr/>	<hr/>
	1.18	1.23	1.18	1.63
	15%	16%	17%	16%
	<hr/>	<hr/>	<hr/>	<hr/>
Administration and overhead .....	2.04	2.08	1.75	2.06
	26%	26%	25%	21%
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL COST</b> .....	7.76	7.93	6.95	9.99
	100%	100%	100%	100%
	<hr/>	<hr/>	<hr/>	<hr/>

\*Total grain handlings, bushels per year and cents per bushel in brackets: 1975-76 — 139M (19.04¢); 1976-77 — 151M (19.44¢); 1977-78 — 169M (17.01¢); 1978-79 — 147M (24.47¢).

provided the basis for *potential* all-time record handlings for the country elevator system in western Canada and for United Grain Growers.

Producer deliveries were heavy throughout the fall and early winter months last year and in total fell only slightly behind the record pace of 1977. However, points without on-farm or elevator stocks of high grade red spring or durum wheat were

badly behind in deliveries. Throughout this period car loadings were at the fastest pace ever achieved by the system.

While the overall tonnage in-store in country elevators was little different from the previous year, the distribution was lopsided: open space and fast turnover in the southern part of the Prairies, and congestion in the north.



At the same time there was the normal slow-down in Thunder Bay shipping because of the close of navigation on the Great Lakes, problems occurred in getting high-volume movement to the West Coast. Heavy all-rail movement to eastern Canada with very slow turn-around on rail cars also had an effect on car availability for west-bound movement.

By mid-April, the season's total shipments out of country position were behind the comparable position of the previous year. The situation did not improve through the rest of the fiscal year.

Congestion throughout much of country elevator system was a limiting factor for the balance of the crop year. This resulted in deliveries to all companies being below those of the previous year by about 1 million tonnes in Manitoba, 3.2 million tonnes in Saskatchewan and 0.5 million tonnes in Alberta.

United Grain Growers' percentage of total farmer deliveries held equal to the previous year in Manitoba, increased slightly in Saskatchewan, and increased by over 3 per cent in Alberta mainly due to the company's heavy receipts of open market grains in that province. The company's overall percentage handle exceeded 17 per cent of total 1978-79 primary elevator receipts.

**As this past year so well illustrates,** the well-being of your company's country elevator system is tied to two economic elements: the revenue generated by each unit and the costs of maintaining and operating each unit.

Table 3 shows the breakdown of the costs of handling a tonne of grain through your country elevators during 1978-79 when 3.61 million tonnes were handled. Costs this past year amounted to \$9.99 per tonne. The cost in the year previous when 4.17 million tonnes were handled was \$6.95 per tonne.

United Grain Growers intends to increase its market penetration for

both grain deliveries and farm supply sales. The directors of your company again wish to share with members their upgraded plans on how UGG can handle 25 per cent more grain and sell 50 per cent more fertilizer and farm chemicals in western Canada. Their intention is to achieve this within the next ten years.

Currently United Grain Growers operates about 390 manager units. Rail rationalization and the normal economics of low-volume elevator operation will dictate that UGG close out operations at possibly 30 to 40 locations over the next five to ten years. UGG market development analysis has identified a number of attractive invasion opportunities open to your company.

The medium-term plan is moving towards a system of about 350-375 operating units with *average* handlings per unit of over 12,000 tonnes annually, ranging from 11,000 tonnes to close to 50,000 tonnes handling. Average annual farm supply sales would be expected to be over \$150,000 per unit.

Earnings will govern the amount of money available each year for upgrading the elevator system.

*Elevator Replacements* — At a number of permanent locations within UGG's system, either sites are unsatisfactory or facilities are not suitable for upgrading through major overhauls. New facilities will be required. Individual costs for these new plants, not including anything other than the basic elevator, driveway and office structure, will vary between \$450,000 and \$750,000 depending on individual market requirements. A program involving construction of 3 or 4 locations per year would involve capital expenditure of between \$1.5 and \$2.5 million annually.

*Invasion Points.* At a number of locations where your company is not presently represented, there appears to be enough potential volume to make invasion profitable. It is expected that invasion of these markets could add over 10 million bushels to

overall handlings and would increase UGG's overall market penetration by about 1½ percentage points. Facilities to provide attractive service at these locations will involve capital expenditure in the order of \$800,000 per location.

*More Storage Capacity.* More working capacity is needed to improve the operations at many permanent locations in the system. Obsolete storage capacity at a number of other permanent locations will have to be replaced to improve operating efficiency. The total new and replacement capacity requirement is estimated at over 125,000 tonnes. Costs will vary between \$50 and \$100 per tonne, depending on the size and type of structure required at individual locations. A continuing program involving annual expenditures of \$1.5 million would permit construction of increased and improved working capacity at 6 to 8 locations per year.

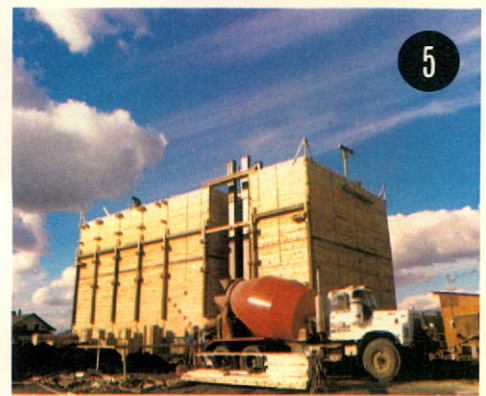
*Major Elevator Renovations.* United Grain Growers has many sound elevators on satisfactory sites at stable or growing permanent points where service and operating efficiency can be improved through major overhauls. Costs will vary between \$100,000 and \$250,000 per project. Upgrading of receiving scale capacities will be required at about 100 locations over the next ten years.

Improved elevating, distributing and shipping capability, modernization of offices, and installation of some automation and labor-saving equipment also falls within this category and is justified at many locations.

*Minor Elevator Capital Repairs and Renovations.* Within the UGG system there is an ongoing need for capital expenditures of about \$800,000 per year on smaller repair, renovation and equipment-replacement projects. Installation of mechanical dust control equipment, that costs between \$15,000 and \$20,000 per location, falls within this category. The present objective of United Grain Growers is to have *all* main operating



This past fiscal year, nearly \$4 million were spent on new elevators and major modifications. Some of these included: New elevator at Co-dette, Saskatchewan (1). The 800-bushel-an-hour cleaner (inset) can clean rapeseed to export standards. Major renovations such as those at Rivers, Manitoba (2) and Birch River, Manitoba (3) include 70-foot scales to take the largest trucks. Special plastic buckets (inset) cut maintenance costs and reduce chances of sparks that could cause fires. The new elevator at Elrose, Saskatchewan (4) was officially opened in July. The St. Paul, Alberta elevator is now under construction (5).





plants equipped with dust collectors by the end of 1981.

*Country Dwellings.* There are now reasonably good dwellings at most of the permanent locations of United Grain Growers. New dwellings of standard quality presently cost \$40,000 to \$60,000. A continuing program involving annual expenditure of \$150,000 would satisfy requirements for building of houses where they are not now provided, and upgrading below-standard buildings.

*Country Warehouses.* Most permanent locations have some warehousing for storage of twine, seed, bagged fertilizer and general products. Many are not adequate and directly reduce our ability to expand sales volume. Satisfactory new and replacement warehouses will vary in cost between \$15,000 and \$25,000 in most cases. A program of 15 new warehouses per year would involve an annual capital expenditure of about \$300,000.

*Bulk Fertilizer Storage.* The round plywood bins through which most of our bulk volume is presently moved, while they cost little to build, do not allow United Grain Growers to provide good competitive service at the big volume locations. A continuing program of new facilities with ground level storage, scales, and mechanical loaders is needed.

Such facilities, capable of handling up to 1,000 tons of fertilizer per year, involve capital expenditure of \$60,000 to \$125,000 per unit. An ongoing program of \$600,000 expenditure per year would permit development of 7 to 8 locations annually and substantially help improve market penetration.

*Anhydrous Ammonia Distribution Plants.* The use of anhydrous ammonia on farms in western Canada has increased substantially in recent years, mainly due to lower-cost-per-pound nitrogen. Lack of supplies have in the past limited market growth. Presently United Grain Growers distributes anhydrous ammonia through 18 plant locations. A

program of ongoing development of 3 or 4 new outlets per year would involve capital expenditure of \$400,000 to \$500,000 per year.

**Even though the level of handling** during the current crop year could be higher than this past year, the squeeze will continue to be placed on elevators that normally do not enjoy a large handling.

The present country elevator operations break-even point is about 4 million tonnes of handlings with sales of about \$35 million in farm supplies. In order to reduce the break-even level to the point of satisfactory earnings in years of less-than-record grain handlings, a reduction must be made in number of operating units.

In the current year, it is expected at least 15 low-volume elevators including a number on lines slated for rail abandonment, will be closed out or traded. Elevators closed during the 1978-79 season were: Armena, Bickleigh, Brookdale, Berwyn, Cromer, Glenwood, McMorran, Ninga, Peacock, Rhein, Stewart Valley, Strome, Villeneuve, Wembley, Whitemouth.

Elevators were lost by fire at Binscarth, Manitoba, Codette, Saskatchewan and Olds, Alberta. New facilities are being built at Olds and Codette. Unfortunately, the potential volume tributary to Binscarth was not sufficient to support the cost of reconstruction and this point will not in future be directly served by a UGG elevator.

UGG discontinued operations of its elevators at Carberry and Fort Garry, Manitoba, as primary elevator units and in future will only be handling special crops through these plants. Elevators under constant surveillance are any of those with less than 6,000 tonnes annual handling.

**The transportation system was the** focus of attention of the grain industry this past year and continues to be in the current year. The four areas on which the directors of your company wish to comment are:

- The final report of the Prairie Rail Action Committee on branch lines.

- The examination of the Hall and PRAC branch lines by Saskatchewan MP, Doug Neil.

- The final report of the Grain Transportation Operation Analysis that studied the day-to-day control of transportation by the Canadian Wheat Board, the railways, and the elevator companies.

- The appointment of a Grain Transportation Co-ordinator, Dr. Hugh Horner.

The following section details the comments of the UGG board of directors.

The Prairie Rail Action Committee was formed after the Hall Commission to examine the 2,344 miles of line on which Hall failed to reach a final decision. The directors reported fully on the PRAC in last year's annual report and included a description of the decisions which they had already reached at that time.

The PRAC's final report was released in late 1978. It detailed all the decisions that the committee had made. The committee examined a total of 2,543 miles of line, 195 miles more than the Hall Commission left in abeyance. This extra mileage included one permanent network line (the Tyvan sub-division, 117 miles), several lines which Hall recommended be abandoned but which the PRAC reversed, and 35 miles of new construction, recommended by the PRAC.

As a result of the PRAC's work, 1,001 additional miles were added to the permanent network (including 43 miles which Hall recommended to be abandoned but which the PRAC reversed) and 1,367 additional miles were turned over to the CTC for final evaluation.

In response to criticism of the Prairie Rail Action Committee, the new Conservative government asked the Canadian Transport Commission to place a 90-day moratorium on further branch line abandonment considerations. It appointed Saskatchewan MP, Doug Neil, to take a new look at all the branch lines



where an abandonment application has been filed but where the CTC has not yet made a decision. Mr. Neil met with United Grain Growers on September 27th, 1979 and reviewed all the lines where UGG has elevators.

In formulating strategy in branch line abandonments, the directors of United Grain Growers have been conscious of the following factors:

- *The need to preserve rail service in remote areas where abandonment would create burdensome hauling distances.* In cases where cessation of rail service would cause hardship, UGG has opposed abandonment before Hall, the PRAC, and Doug Neil, and it will oppose abandonment before a CTC hearing.

- *The changing character of the elevator system.* Over the past 10 years, one third of the elevator points in western Canada have closed, and in the last few years, the trend is accelerating. UGG has attempted at all times to assess whether elevator points can be assured of a 20-year future before pressing for inclusion of a line in the permanent network.

- *The need for upgrading lines and the shortage of resources to do it.* It is not enough that rail lines be made permanent. If they are to be of use, they must also be upgraded. It is obvious that if every rail line in the west were made permanent, there is not the money to upgrade them all.

By the same token, the directors of your company point out that if too many lines are made permanent, the upgrading will absorb government money that could be better spent in other ways. The fact of the matter is, like it or not, retention of a line is not always in the best interests of the farmers of western Canada.

Your company has tried to take a balanced view in this matter of branch lines. On one hand it weighs the needs and desires of the farmer for convenient and accessible rail and elevator service. On the other, it recognizes the need to develop an efficient and effective transportation and handling system, not burdened with costly and redundant facilities.

In July, 1979, the final report of the Grain Transportation Operation Analysis was released. This study was started by the former Liberal government to examine the day-to-day control of transportation by the Canadian Wheat Board, the railways, and the elevator companies. It was carried out by two consulting firms, Booz-Allen & Hamilton Inc., an American consulting firm, and IBI, a firm based in Toronto. The lengthy report contained many recommendations involving five major areas.

The report found improved information, planning and control systems were necessary to ensure the right grain arrived at the terminals at the right time. An investigation of waiting ships at Vancouver during the fall of 1978 showed they were not caused by a shortage of rail cars but by inadequate control systems for grain moving forward.

A lengthy list of operational and institutional improvements were made to improve cooperation. Among the key recommendations in this area were suggestions that the elevator companies have a bigger role in car allocation, and advice that the transportation planning system incorporate a more open exchange of information between the Wheat Board, the railways and the grain companies.

A third part of the report focused on the need for rail cars. The study found that 9,300 hopper cars should be purchased between now and 1985 if the high forecasts of grain movement were to be achieved, based upon the export target of 30 million tonnes per year.

In addition, the study confirmed the need for additional terminal capacity on the West Coast and the necessity for development at Prince Rupert.

In a fourth area, the study recommended a task force be set up to implement the recommendations of the study. The consultants suggested this task force would report to an executive committee chaired by the Minister Responsible for the Canadian Wheat Board, and composed of

representatives of the railways, Canadian Grain Commission, and grain trade. The task force would have a managing director and a staff of about 10 people.

The fifth major recommendation of the study was, "on balance, from the viewpoint of operational efficiency, the consultant team favors relocation of the Block Shipping Staff to report to the Managing Director of the Task Force."

The Grain Transportation Operation Analysis was begun before the election of the new federal Conservative government. Since the election, events have taken a different turn, with the appointment, effective October 15, 1979 of Dr. Hugh Horner of Alberta to the post of Grain Transportation Co-ordinator. Terms of reference for the position were released in late September. They gave the co-ordinator the following powers and duties:

1. Allocate the car fleet including the CN-CP grain-dedicated fleet, the Canadian government cars, the Canadian Wheat Board cars, and the industry-owned railway cars; and will determine the needs and seek to ensure that the required fleet is available.

2. Allocate available railway equipment, on an overall percentage basis:

- (a) between the board and non-board sectors.
- (b) between the various parties in the non-board sector.

3. Develop car allocation formulae as he determines are necessary to carry out his mandate.

4. Chair the Senior Transportation Committee and the Grain Transportation Technical Committee. He or his designate will attend the bi-weekly industry operating committee meetings and chair the weekly Canadian Wheat Board-railways meeting.

5. The grain industry and appropriate government agencies shall fully co-operate in providing the co-ordinator with any information deemed necessary by the relevant minister. This shall include all sales information, which shall be treated in strict confidence.



6. If and when deemed necessary, he will approach the minister to secure the appropriate additional powers required to properly fulfill his mandate.

Consistent with the above and in co-operation with the co-ordinator, the Canadian Wheat Board will:

1. Continue to allocate quotas.
2. Continue to operate the block shipping system.

Precisely *how* the responsibilities for the allocation of cars and the day-to-day management of the block shipping system is to be divided between the Grain Transportation Co-ordinator and the Canadian Wheat Board, remains to be established. The relative authority of the board and the co-ordinator is a key issue.

The appointment of the co-ordinator was preceded by some extensive investigations into the grain transportation problems by the Grain Movement Task Force, a committee of three parliamentarians: Jack Murta from Manitoba, Bill McKnight from Saskatchewan, and Stan Schellenberger from Alberta. This committee suggested a number of short term options to improve grain movement, including pooling of rapeseed cars at Vancouver, trucking grain from lightly used branch lines to main lines, and simplification of the grading system.

The idea of trucking grain from branch lines to main lines was studied by the Grain Transportation Technical Group, an industry committee under the chairmanship of the Canadian Wheat Board. It found that if something over 1,000 miles of light density branch line were temporarily placed out of service, the improved turn-around time on rail cars would result in only about 200,000 tonnes additional movement, approximately 1 per cent of the total.

The technical group recommended a continuation of the present "Snow Lines" policy to deal with these low density lines — that is, the policy of suspending service in winter months. It suggested that greater emphasis

be placed on moving grain off these lines in the fall rather than late spring and summer.

The Murta Task Force has left several commitments in its wake still studying the other ideas which it examined.

United Grain Growers was active in both Booz-Allen's Grain Transportation Operation Analysis and activities of the Murta Task Force. In the Booz-Allen study, United Grain Growers had a representative on the Industry Liaison Committee, a group of grain industry representatives established to advise the consultants. Your company also made a formal presentation to the Murta committee.

United Grain Grower's position in these proceedings has encompassed the following major points:

- The present management of the block shipping system places a large amount of *discretionary* power in the hands of the Canadian Wheat Board transportation department staff. The directors of your company hold to the view that a system which allows one organization or group of people to arbitrarily dictate to another is wrong in principle and in practice.

- The open market segment in Canadian grain marketing has grown tremendously in the past five years. However, the management systems of the block shipping system were not

designed to accommodate such a large proportion of open market grains.

United Grain Growers supports the option presented by the open market for rye, oilseeds and open market feed grains, oilseeds and specialty crops. Accordingly, UGG directors feel changes in the block shipping management practices must be introduced to accommodate these higher volumes of open market grains.

- The objective of the block shipping system is to get the right grain from the country to the right terminal at the right time. Elevator companies, such as United Grain Growers, are an organization — with elevator managers, country operations personnel and terminal people — designed to do precisely that. Yet the elevator companies' role in car allocation and block shipping management is minimal. Accordingly, UGG has pressed the view that elevator companies should have a larger responsibility in the management of the block shipping system than they now do.

UGG continually pressed the preceding three points with Booz-Allen people and with the Murta Task Force. Of the three, the problem of making the open market work is the most critical. In its brief to the Murta group, UGG said:

"We believe that the grain industry is at a critical crossroads. Either we structure the role of the Grain Transport Co-ordinator and his relationship with the grain companies and railways in a way that makes the present marketing systems work, or, we have a completely centralized system, with the Canadian Wheat Board doing all the grain marketing, and have substantially reduced competition at the primary elevator level with elevator companies acting as the grain handling wing of the Canadian Wheat Board in a manner similar to the Australian system. The choice, we believe, is just that dramatic, and just that simple."

UGG believes Dr. Horner's long-term goals as Grain Transportation Co-ordinator must be:



Dr. Hugh Horner has been appointed Grain Transportation Co-ordinator.



- To decentralize the management of the block shipping system in order to use the management strengths of the elevator companies to do the job of moving grain.

- To develop arrangements between the Canadian Wheat Board, the railways, the elevator companies and Dr. Horner's office, so that the arbitrariness of the present system is brought to an end.

### Farm Supplies Operations

Sales value of farm supplies increased by \$6 million — nearly 20 per cent over the record established the previous year.

Fertilizer sales rose 16 per cent, chemical sales were the same as in 1978, and sales of seed treatments rose 19 per cent. Combined sales of twine and other products increased nearly 4 per cent.

The importance of farm supply sales to the well-being of country operations and the changing nature of the distribution of farm supplies has led the board of directors to appoint a senior committee to analyze the marketing of farm supplies.

*Fertilizer:* Although wet harvest conditions restricted early fall sales in 1978, demand increased sharply in the short season after harvest was complete. Sales continued strong into March by which time some grades of fertilizer were in short supply. The late spring, however, eased demand and some of the tight fertilizer situation was relieved. The year ended with a substantial increase in sales, particularly in Saskatchewan and Manitoba.

The outlook for the current year is for increased prices for all grades of fertilizer due to cost increases for labor, transportation, natural gas and phosphate rock.

Fertilizer consumption in western Canada has increased about 800,000 tons over the last two years. As fertilizer companies do not have the capacity to store this additional product they rely on a strong movement of fertilizer through the fall and winter.

**Table 4**  
**Points and Lines still before the CTC for Abandonment where UGG is Represented.**

Abandonments recommended by Hall		Points
Subdivision		
Alberta Central		Benalto, Alta.
Carlton		Carlton, Sask.
		Waldheim, Sask.
Central Butte		Lake Valley, Sask.
Corning		Handsworth, Sask.
McMorran		Bickleigh, Sask.
Stettler		Edberg, Sask.
Abandonments recommended by PRAC		Points
Subdivision		
Bengough		Ceylon, Sask.
		Harpree, Sask.
		Willowbunch, Sask.
		Holdfast, Sask.
		Dilke, Sask.
Corning		Corning, Sask.
Miami, Carman & Hartney (Morris Hartney line)		Kane, Man.
		Myrtle, Man.
		Roland, Man.
		Rosebank, Man.
		Altamont, Man.
		Somerset, Man.
		Swan Lake, Man.
		Mariapolis, Man.
		Belmont, Man.
		Elgin, Man.
Pennant		Hazlet, Sask.
		Verlo, Sask.
Preeceville		Nut Mountain, Sask.
Rosburn		Oakburn, Man.
		Vista, Man.
Ste. Rose		Ste. Rose, Man.
		Rorketon, Man.
Stettler		Morrin, Alta.
Tonkin		Calder, Sask.
Wishart		Wishart, Sask.

**Table 5**  
**Status of Rail Lines**

Permanent Network	Miles	Miles
(1) Made permanent in 1974 .....	12,413	
(2) Added by Hall Commission .....	1,813	
(3) Added by PRAC .....	1,001	
Total .....		15,227
Lines Abandoned since 1972		
(1) Placed before CTC by 1974 government decision .....	525	
(2) Placed before CTC by Hall and PRAC .....	1,418	
Total .....		1,943
Still Before CTC Pending Hearings or Decisions		
		2,072
New Construction		
Recommended by Hall and confirmed by PRAC .....	8	
Recommended by PRAC .....	35	
Total .....		43
GRAND TOTAL .....		19,285





Bulk fertilizer blending facilities were completed at Ste. Anne, Manitoba (inset). Elevator manager, Bill Reimer, inspects special Avadex liquid applicator that coats nitrogen granules.

Elevated bulk bins with smooth walls to make it easier to handle fertilizer are being installed at five points in Manitoba and Saskatchewan.

A new solution plant to handle liquid nitrogen has been installed at Rignold, Manitoba. A second plant is being erected at Lake Lenore, Saskatchewan.



If fall and winter sales are slow and storage becomes congested, the manufacturers could be forced to sell products earmarked for western Canada into export markets. This could seriously affect the domestic supply position next spring and instead of having adequate supplies of phosphate fertilizer, there could be a shortage. Urea (46-0-0) and anhydrous ammonia (82-0-0) are already in short supply among manufacturers.

During the past year, a bulk fertilizer plant with blending facilities was completed at Ste. Anne, Manitoba. Similar units are planned at Olds, Alberta and Rosthern, Saskatchewan. The anhydrous ammonia plant at Cayley, Alberta was relocated to Rimby. A new solution plant was installed at Rignold, Manitoba and a second plant is being built at Lake Lenore, Saskatchewan.

At five points in Manitoba and Saskatchewan, elevated bulk hopper steel bins with smooth walls were installed for handling bulk fertilizer. A number of larger installations of this type are planned for the current year.

**Herbicides:** Although demand for soil-incorporated wild oat herbicides was affected by wet spring conditions, demand continued high for post-emergent chemicals.

Carbyne, Avenge and Mataven sales were up substantially and Hoe-Grass sales nearly quadrupled from the year previous. Sales of the newer specialty chemicals — Torch, Tordon 202C, Dyvel, Sencor and Stampede — for the control of hard-to-kill weeds, continued to increase. Weedone and Weedar product sales remained about the same as the previous year.

The new herbicides, Blagal, for the control of hard-to-kill weeds in wheat, barley and oats, and Stampede CM, for the control of green foxtail and other weeds, performed well.

Except for Treflan granules and Hoe-Grass, herbicides were generally in good supply.

The outlook for the current year is for a good supply of all weed chemi-



icals. However, prices are again expected to increase due to the devalued Canadian dollar and increased cost of petroleum-related products.

**Twine:** The demand for fibrilated plastic twine continued to increase. It is a twine that won't rot and can be interchanged in most balers with only minor adjustments. This past year, your company experienced some isolated shortages of both sisal and fibrilated twine because of the truckers' strike in the United States and the dock workers' strike at Vancouver.

Present indications are the price for both sisal and plastic twine will be up considerably next year.

**Other Farm Supplies:** Sales of tarpaulins, sprayer parts, grain moisture meters, paint and other miscellaneous items moderately increased this past year.

A new seed treatment, Vitavax RS Flowable, the first liquid seed treatment to control both flea beetles and blackleg in rapeseed, was well accepted. The product is also available in powder form.

Your company has been appointed the exclusive distributor in western Canada for the Gjesdal Five-in-One Rotary Grain Cleaner. The unit, developed by a seed grower, Harvey Gjesdal of Birch Hills, Saskatchewan, incorporates all the modern methods of grain cleaning into a single small machine. The first production models are expected to be available in January. It is being manufactured by CEA Simon-Day Limited.

### Seed Operations

Total sales of seed handled by your company in 1979 were \$161,000 higher than the record of the year previous. However, cost increases for processing and bagging, transportation and labour reduced profits by 10 per cent.

Creeping red fescue again was the top-earning commodity. Lawn mixtures, rapeseed, red clover, alfalfa and the feed grain sales all contributed to the higher sales.

Alsike and timothy which were major items a year ago were handled in lower volume and at substantially reduced margins during the past fiscal year.

Spring wheat seed sales contributed 26 per cent of the total earnings from cereal and oilseed crops during the last fiscal year. Durum seed sales were down. Barley sales were equal to the previous year. Flax and rapeseed sales increased substantially so that by May supplies of certified flax and rapeseed became tight.

Your company owns major seed cleaning plants at Edmonton and Winnipeg, and smaller facilities at Regina and Dinsmore in Saskatchewan and at Souris and Swan River in Manitoba.

The major seed crop handled by the Edmonton plant continued to be creeping red fescue. Its price and demand fluctuates with that of Kentucky blue grass and is usually priced within a 15 to 20 cent spread.

Resident buyers in the Peace River area schedule shipments of creeping red fescue from buying stations in the area to the plant in Edmonton. After cleaning and processing, the seed is exported to Japan, Switzerland, France, Italy and Great Britain. The

price paid to growers last year averaged 50 cents a pound.

Alsike and red clover would have set new yield records last year but just as harvest began rain and adverse weather prevented the crop from being harvested for seed. Prices paid to farmers, from 20 cents for alsike to 35 cents for red clover, were substantially better than the final market. Demand dropped from the year previous and overseas buyers did not feel any need to buy in a forward position because of the large estimated crop.

Brome and crested wheat grass were handled in an equal volume to the previous year. To reduce your company's dependence on imports of Carlton and Magna brome grass from the United States, local production of these two varieties will be encouraged.

Double re-cleaned Peace River oats continue to increase in demand. These cleaned and re-cleaned oats weigh about 47 pounds a bushel and are in demand by race horse owners not only in the United States and eastern Canada but also in Great Britain and Venezuela.

Cleaning and handling rapeseed increased substantially. Rapeseed treated with Vitavax RS Flowable



*The Gjesdal Five-in-One rotary seed cleaner is a revolutionary new concept for on-farm cleaning. United Grain Growers farm supply operations will exclusively distribute this new cleaner in Canada.*



**Table 6  
Prairie Seed Acreage of Special Crops**

	<b>1978</b>	<b>1979</b>
Sunflower seed .....	214,000	406,850
Mustard .....	242,000	170,000
Buckwheat .....	122,000	135,000
Corn .....	95,000	134,000
Peas .....	97,000	108,000
Lentils .....	26,900	49,200
Fababeans .....	29,000	41,000
Canary seed .....	32,500	43,000
Dry Beans .....	8,100	10,700
	866,500	1,097,750
Total Acres .....		

proved popular as farmers needed protection against Black Leg and Flea Beetles but didn't want to treat the seed themselves.

The mustard handle was about the same as the year previous but, due to lower prices, total dollar sales were down. The swing to rapeseed by some mustard growers resulted in a reduced number of acres grown. However, yellow mustard without admixtures of rapeseed or wild mustard will be in demand. It is expected prices for mustard will increase over the next year.

A new variety of yellow mustard, Kirby, has been obtained from a plant breeder in England. A limited amount of foundation seed will be multiplied and will be the basis of the contracting program for yellow mustard. Kirby has larger kernels and in field tests yielded equal to or slightly better than the existing varieties.

Pea volume increased as two new varieties were introduced. El Grando is a large yellow pea and is in demand as soup peas in Quebec and for export. Verto is a whole green pea that has a market in England and Europe. Both these peas are sweeter than the traditional varieties. Tara, a somewhat pear shaped pea, will be grown on a contract basis.

The seed operation of United Grain Growers also includes packaging of the Canwest Brand of dried cereals

and bird seed for sale through food and department stores. The division also custom-packages dried cereals for private labels. Of all packaged goods, popcorn continues to be the top earner.

### **Special Crops**

Special crop acreage has increased markedly, particularly in Manitoba. The number of Prairie acres in special crops rose from 866,500 in 1978 to 1,097,750 in 1979. (Table 6).

Your company is now actively marketing corn, sunflowers, lentils, fababeans, buckwheat and other special crops. It has the experience and resources to contract and market special crops. This is consistent with UGG's concept of providing a total service to farmers.

The directors of United Grain Growers believe producers will benefit from the company's cash crop program these ways:

- A guaranteed market for total production from an agreed acreage.
- Cash payment on delivery.
- Top-quality seed supplied with the contract, with farmers allowed the option to use seed from other sources.
- For marketing purposes, land devoted to non-quota special crops can be allocated to cereals.

The crop can be priced in a number of ways: at an agreed-upon contract price; at a cash price upon delivery; at a price tied to the futures market; at a street price (up to the end of that crop year).

Your company plans to expand its contracted acreage of special crops in Saskatchewan and Alberta. Plans are underway to hold producer meetings around the country to help producers become aware of the technical, production and marketing aspects of special crops.

Sunflower acreage will be increased next year. Three crushing facilities to be built in Minnesota and North Dakota will need about 300,000 acres of sunflowers each in the future. Export demand is expected to remain strong. About 80 per cent of the sunflowers from the Prairies are exported at this time.

A more sophisticated system is developing to help market sunflowers. The opportunity to hedge purchases will protect your company (and farmers) from sharp price swings when the Minneapolis Exchange lists sunflowers on its futures market in November, 1980.

This was your company's first year of marketing grain corn. Manitoba corn was sold to markets in British Columbia and Alberta. Quality control is a major concern related to expanding UGG's share of the corn market. Good quality No. 2 corn is tied to proper harvesting, drying, handling and buying. Providing top quality corn consistently will put UGG in a competitive position in the Alberta and British Columbia corn markets.

Lentil contracting will also increase significantly next year, mostly in Saskatchewan. Seed supplies are adequate for the projected expansion.

### **Terminal and Grain Marketing Operations**

United Grain Growers' terminal at Vancouver has a capacity of 102,000 tonnes. At Thunder Bay, your com-



pany has two terminals: Elevator A with a capacity of 231,000 tonnes and Elevator M, with a capacity of 91,000 tonnes.

Most of the grain delivered by customers to your country elevators flows to domestic and export markets through these terminals. Smaller amounts are shipped to Churchill and Prince Rupert, and some is consigned to malting plants, mills and feedlots in the Prairie Provinces.

The grain handled by your terminals this past year amounted to 2.7 million tonnes compared to the previous year's total of 2.9 million. The total profit at the terminals this year amounted to \$4.1 million compared to \$3.2 million in the previous year. Despite a lower throughput, the reasons for the improvement included a better price for screenings, higher elevation tariffs, plus a containment of some expenses and a more efficient operation.

It was a busy year at Thunder Bay

and handlings reached 2.1 million tonnes. This was 7 per cent higher than the previous year, although total grain through Thunder Bay as a whole, dropped by 4 per cent. This meant that the UGG percentage of the total volume moved through the port was relatively higher.

The increase came about for several reasons. Your company's heavy domestic feed grain program demanded a large rail movement during the winter months and much of this was allocated to our own facilities. In previous years the Canadian Wheat Board did not permit the accumulation of required stocks in your own terminals, resulting in your company being forced to place our business with other terminal operators.

Net earnings at Thunder Bay were very satisfactory, not only because of the higher handlings, but because of two tariff increases, the first early in the crop year, followed by the second in January, 1979.

Double shifts were employed at both Lakehead elevators as much as possible, and reduced overtime costs considerably. Therefore, although the total wage bill was much higher due to the new collective bargaining agreement reached with the union, it was not as high as it might have been if more overtime had been used.

All capital projects at Thunder Bay were postponed due to other projects at Vancouver.

There is a continuous need for further investment in your company's properties at Thunder Bay: one answer to continuous increases in labor costs is automation.

A number of sizeable construction projects must be undertaken in the future. These involve deepening of slips at both plants, installation of high loading spouts at Elevator A, replacement of wooden trestle at A, replacement of scales at both terminals, improvement in cleaning capacity and reclaim system at both terminals, and modernization of car moving machinery plus overall automation.

An expensive collective labor agreement was concluded with the Thunder Bay grain handling union to carry on until December 31, 1981.

Your Vancouver terminal has been limping along for more than a year while work toward automating the plant has been in progress. Handlings fell this past year by 330,000 tonnes, mainly due to the modernization program and partly due to the longshoremen's strike this past spring.

To date about \$15 million on the modernization program has been spent, and the first phase of the overall program will be finished before 1980.

After running in the new systems it is expected that the ability to handle grain will be substantially increased. Unfortunately, modernization work impaired things so badly, your Vancouver terminal lost money for the year under review. The directors of

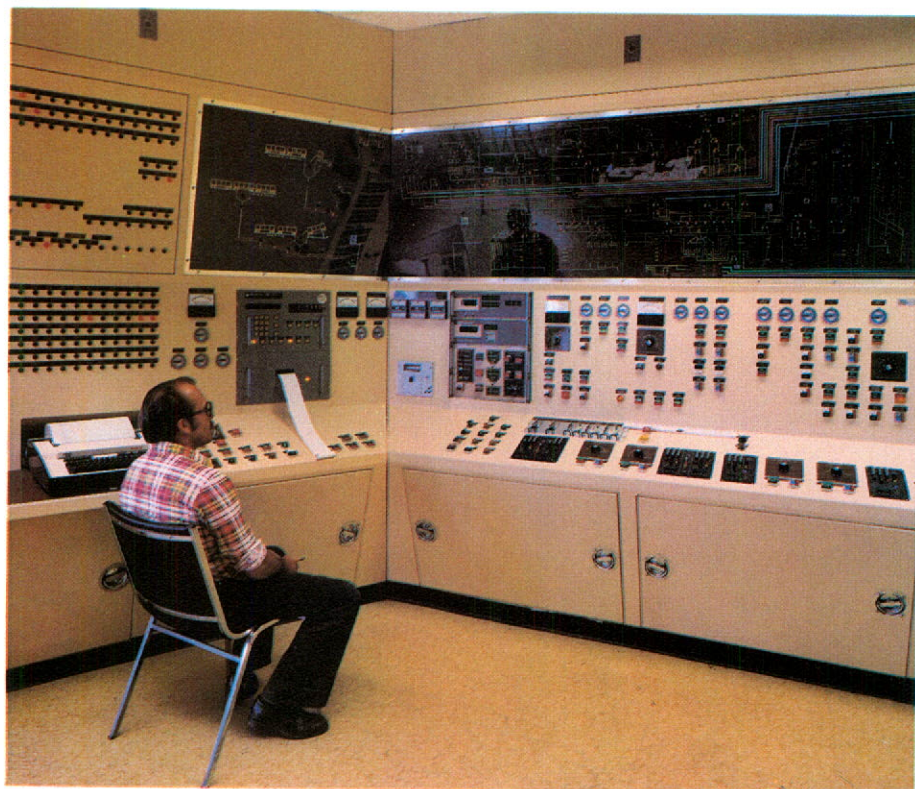


The UGG rail system at the Vancouver terminal has been completed. It can accommodate 85 hopper cars or 100 boxcars, almost triple that before modernization.





Both boxcars, by a mechanical dumper, and hopper cars can be unloaded simultaneously. The hopper cars are unloaded into a new discharge pit, installed as part of the Vancouver terminal renovation.



Movement of grain through the Vancouver terminal is controlled through this one 'nerve' centre. The panel contains over 30 miles of wire.

your company, however, felt the small loss was better than the alternative of a complete shutdown.

Further funds will be invested to complete the planned changes required at this plant, mainly in the area of improved vessel loading capacity.

Agreement with the grain workers union in Vancouver has been reached. The settlement was costly.

The company's fifth full year of marketing operations showed a loss of \$220,000, though less than the previous year's loss of \$491,000. These figures belie the tremendous increase in physical volume enjoyed with sales this past year sharply up to a record 2.9 million tonnes.

In just five years your company has become established as the *biggest* shipper of feed grains to the Quebec market and a major supplier to Ontario. Also, this past year a considerable quantity of grain went for export. UGG chartered 13 vessels for full export cargoes and relet space on eight more ships chartered by others. Several cargoes of malting barley were shipped as well as other grains to overseas buyers.

From the West Coast, UGG has been active in the Japanese market and higher tonnages moved for export from the port of Vancouver for UGG's account. The company's share of the B.C. domestic market showed satisfactory improvement.

The past year proved to be a constant battlefield for either boxcars or hopper cars to move the goods purchased by UGG's country elevator system to final destinations, whether within or outside of this country. Strikes or labour disruptions of various kinds also frequently impeded the free movement of grain.

The pronounced shift in marketings from the Canadian Wheat Board to the open market is something which is not yet fully realized. These deliveries have grown from less than 10 per cent to about 25 per cent, and may well continue in this direction. Much depends on policies pursued by the Canadian Wheat Board and



the market opportunities presented from the open market side.

The imposition of quotas on open market feed grain by the Canadian Wheat Board may not achieve the results expected by those advocating the policy. It is quite possible farmers, frustrated by those quotas, will turn to *other* crops and unusual distortions may be introduced in the Prairie cropping pattern. The remarkable growth in sunflower production is a good illustration of what can happen.

The sharing of the total market between the Board and open market has always posed a difficult problem. While the management of your company, because it is engaged in an intense struggle to increase market penetration of feed grains in eastern Canada and B.C. may be biased in this regard, there is no question the car distribution struggle will continue.

The directors of United Grain Growers are convinced the overall capacity of the Canadian system to handle grain — especially on the West Coast — will be markedly improved during the current year. The new storage space constructed by the Pools should be fully operational this year, and the new Pioneer terminal opened in October, 1979. UGG's own plant, already handling more grain than at any time last year, should be running at full capacity, at least for the last half of the season.

The new hopper cars ordered by the Canadian Wheat Board have started to move into the fleet. If the repair program is successful in sustaining the same number of box cars, there should be no further deterioration in railway performance.

Three years ago two Italian companies defaulted on cargoes of durum wheat and your company lost \$3.2 million. Applications for recovery of this loss to the American Arbitration Association in New York were successful, and awards in your company's favour were granted, both in the case of the Moretti and Ferrara

companies. References to these problems were made in past annual reports. Steps to implement these awards or resolve the issues, out of court are in hand and a substantial payment has already been received.

## Feed Operations

United Grain Growers, through its division, United Feeds, is the largest supplier of processed feed in the Prairie Provinces. In 15 feed mills, it manufactures a complete line of Unifeed livestock and poultry feeds.

In the 1979 fiscal year, United Feeds had a record year in both sales and profits. Demand for processed feed increased by nine per cent over the previous year because of increases in broiler and hog production.

Even though tonnage sales of United Feeds were up, so were operating costs. The main cost increases were interest on working capital, labour, truck operating costs, heat and power.

It is interesting to note United Feeds processed over 11 million bushels of grain last year. About 80

per cent was bought directly from farmers.

Construction of the first phase of the new feed mill at Lethbridge will be completed in November. This will allow the rolling mills to be phased out of the old feed plant to provide added production capacity to meet present and future demand. The second construction phase is expected to start during this current year. It will include building the grinding, pelleting and bagging facilities plus the warehouse and office.

Government regulations on the use of drugs and growth promotants in feeds have become more stringent in the past year as a result of sulfa residues being found in pork shipped from eastern Canada into the United States market.

Grain prices increased steadily over the past year and ended up about \$25 per tonne higher at the year end than at the beginning. The prices for soya meal, rape meal and meat meal followed a similar trend. This resulted in feed prices increasing an average of \$27 per tonne by the end of the year.

With higher grain and protein costs



Good chewing! Dogs big and small enjoy Western Pet dog food manufactured by United Feeds at its pet food plant at Innisfail, Alberta.



in relation to livestock and poultry prices, it is expected competition in the feed industry will become much keener, resulting in smaller feed profit margins in the current year.

In addition to manufacturing livestock feeds, United Feeds also operates a pet food plant at Innisfail, Alberta, that makes a dry extruded pet food sold under Western Pet dog food label. This plant also manufactures floating fish food and a special pig starter. The pig starter, a new extruded product in western Canada, has been well accepted by hog producers.

Western Pet Foods also manufactures an increasing amount of pet food for private labels. Last year more than two-thirds of its total production was private label which indicates the difficulty in penetrating the established pet food market with a new product.

Although production at the pet food plant was five times that of the previous year, the sale of pet foods was slow in the first six months and a loss on this division occurred. It is anticipated the pet food division will be

profitable in the current year because of the backlog of orders on hand and the installation of new automatic bagging equipment.

### Public Press Operations

Public Press operates a publishing and printing business. It is Canada's largest publisher of agricultural magazines and one of Canada's largest commercial printing operations.

*Country Guide*, a national monthly farm magazine, reaches about 250,000 farmers. Subscribers to *Country Guide* who have certain specific farm enterprises also receive *Hog Guide*, *Dairy Guide*, *Corn-Soy Guide* and *Crops Guide*.

The publishing division also publishes *Cattlemen*, Canada's leading beef publication. Because of the buoyant cattle industry over the past year, the high rate of renewals and new subscribers brought circulation to an all-time high of 42,249. For the first time in the 41-year history of the magazine, Ontario circulation rose past the Alberta circulation. The *Beef Watch*, an outlook section carried ex-

clusively in the May and November issues, improved *Cattlemen's* value to readers.

As a result of record advertising revenue in both magazines, high rate of subscription renewals and new subscribers, the publishing division showed a profit increase of almost \$200,000 over the previous year.

Agritel editorial services produced four issues of *Landhandler*, the quarterly farm publication of Allis Chalmers farm machinery. This, plus rental of its mailing list, produced a modest profit during the past year.

Printing sales from the printing division of Public Press increased by \$500,000 over the previous year. However, another loss about the same as the year previous, was recorded.

The main reasons for the loss were a shortfall in planned sales, high, non-competitive typesetting service, tight supplies of paper, much of which had to come from the United States, and maintenance and downtime of the Solna web press which meant high cost weekend shifts to fulfill delivery commitments.

Although paper shortages will remain a problem, prospects for the current year are extremely good. The number of estimates being processed has doubled compared to the same period last year. This has resulted in the Solna press being booked for several months in this current year. These commitments will assist in maintaining a steady use of plant facilities and improve operational results in the current year.

## Associated Companies

At times United Grain Growers has found it advantageous to be a joint owner of associated companies. The general advantage of such an arrangement is that it allows pooling of resources and sharing of risk by several companies. Such is the case with United Oilseed Products Ltd. and with the newly formed Prince Rupert



Construction of the first phase of the new feed mill at Lethbridge, Alberta is completed. The second phase, including grinding, pelleting and bagging facilities plus the warehouse and office, has started.



Grain Terminal Consortium Ltd., in both of which United Grain Growers is a joint owner.

### **United Oilseed Products Ltd.**

United Oilseed Products Ltd. was incorporated in 1973, with head office and crushing plant at Lloydminster, Alberta. It is jointly owned by United Grain Growers Limited (33-1/3 per cent), British Columbia Packers Limited (33-1/3 per cent), Mitsubishi Corporation (23-1/3 per cent) and the Nisshin Oil Mills Ltd. (10 per cent). The plant began operations in 1975 and constitutes close to 20 per cent of the capacity of the Canadian rapeseed crushing industry.

While the first three years were financially disappointing, with a loss of \$647,000 in the 1978 fiscal year, this past year has shown significant improvement in profits which nearly offset the sum of previous losses. After providing for deferred income tax and dividends, an amount of \$4,800,000 was applied to retained earnings. United Grain Growers' share of this amount is one-third or \$1,600,000 and this is shown as a separate item in the statement of earnings for the current fiscal year.

United Oilseed Products was able to take advantage of significantly improved crushing margins during the year. This was the key factor accounting for the improved financial performance of the company.

Several factors in the marketplace brought about these improved crushing margins. The most important of these was the large increase in the acreage and output of the rape crop. The result of this increase in production was producers offered larger amounts of rapeseed to the company at prices competitive with United States soybean prices. This had a positive effect on crushing margins since United Oilseed Product's marketed rapeseed oil and meal against United States soybean oil and meal.

Other things, such as the devalued Canadian dollar, helped make the Canadian products more competitive

in world markets. The company's marketing connections and the growth in demand for vegetable oil and protein meal on a world-wide scale added to the price stability and helped to achieve positive crushing margins.

The crushing volume of United Oilseed Products this past year was slightly improved over the previous year in spite of the processing problems experienced with the new low glucosinolate varieties. These problems were overcome and by the end of the year the plant was able to process the new varieties at its 600-tonne per day rated capacity.

Financial prospects appear good for the current year. General growth in the world vegetable oil and protein meal markets and growth in demand from countries such as Australia, Chile, Japan and Algeria are factors. The long term contract the company has to supply oil to India is expected to keep crushing volume at the plant's rated capacity of 180,000 tonnes in 1979-80. The value of the Canadian dollar will no doubt have a bearing on United Oilseed Products' ability to move products to world markets.

The supply of Canola type of seed from the 1979 harvest is expected to be sufficient to meet demand, though an adverse growing season and early frosts reduced both grades and yields below earlier expectations.

There will no doubt be some negative factors present in the marketplace. One of these could be the large increase in world oilseed production this year, especially in the soybean crop in the United States. Any movement towards a meal-oriented market means U.S. soybean crushers, crushing to produce meal, may be able to offer large amounts of excess soybean oil on world markets at reduced prices and this would have an unfavorable impact on the crushing margin of rapeseed production. The other unknown factor at this time is the size of the Brazilian and Argentine soybean crops to be harvested in early 1980. These countries

are now major producers and affect world markets.

The volume of rapeseed crushed in Canada has expanded considerably over the past four years from 347,000 tonnes in the 1975-76 crop year to 726,000 tonnes in the 1978-79 crop year — an increase of 109 per cent. This increase in the Canadian crush is providing an important expanded market for rapeseed, second only to Japan as a market for western Canadian rapeseed producers.

Canola is the new generic name now registered to differentiate the seed, oil and meal and other by-products of the newer low erucic acid, low glucosinolate varieties of rapeseed. The varieties that presently qualify as canola varieties are: Candle, Tower, Regent and Altex. The products from these new varieties are superior to the products of the older varieties, especially the meal, and the name Canola distinguishes these improved products in the marketplace. United Oilseed Products crushed only canola varieties this past year.

### **Prince Rupert Grain Terminal Consortium Ltd.**

This associated company was incorporated in January, 1979 with the principal objective of constructing a large high capacity grain terminal at Prince Rupert while seeking in the shorter run to acquire and operate the existing government terminal at that port.

The other members of the Consortium are Alberta Wheat Pool, Cargill Grain Company Limited, Manitoba Pool Elevators, Pioneer Grain Company Limited, and Saskatchewan Wheat Pool.

Late in July a memorandum of understanding was signed by the government of Canada and the Consortium providing for the building of a new grain terminal at Prince Rupert and transfer of the existing elevator to the Consortium. Under the terms of the memorandum a site evaluation team is examining potential sites on



Ridley Island and Kaien Island for the new terminal elevator which will be of at least eight million bushels storage capacity. The Minister of Transport will decide on one of these sites by December 31, 1979.

Among other elements of the understanding is the provision that if construction of the new elevator begins within 24 months of the transfer of the existing elevator, that elevator valued at \$10 million will accrue to the Consortium for one dollar. This offer is good provided the Consortium makes an expenditure of at least \$2.5 million for renovation and upgrading of the plant.

## Other Items

### Farm Organizations Support

During the past year, United Grain Growers continued its long established policy of financial support of other farm organizations. It contributed to the Canadian Federation of Agriculture and is represented on its board of directors. Also, as a direct member, United Grain Growers supported the Federations of Agriculture in Saskatchewan and British Columbia, the Farm Bureau in Manitoba and Unifarm in Alberta.

### Grain Grower and Grainews

Your company's farm production digest, *The Grain Grower*, continued to attract readers. Its usefulness is attested to by the number of readers who renewed their subscriptions during the year, and the many who write to the service for additional information. All agricultural extension personnel in the Prairie Provinces, vocational agricultural colleges, and Department of Manpower students, are paid subscribers to this service.

In the 15 years in which it has been published, *The Grain Grower* has performed a useful farm management service to western agriculture.

Its sister publication *Grainews* was started in 1975 as a grain marketing and rural affairs newspaper and has proven equally popular. Reports indicate *Grainews* is well accepted and

is supplying a unique service to farmers.

A related service, UGG Farmers Library, was started the previous fiscal year. It specializes in the sale of books for farm families not usually available through customary sources. Over 3,500 copies of the book *Combine Settings for Better Harvesting* have already been sold.

## Risk and Insurance Operations

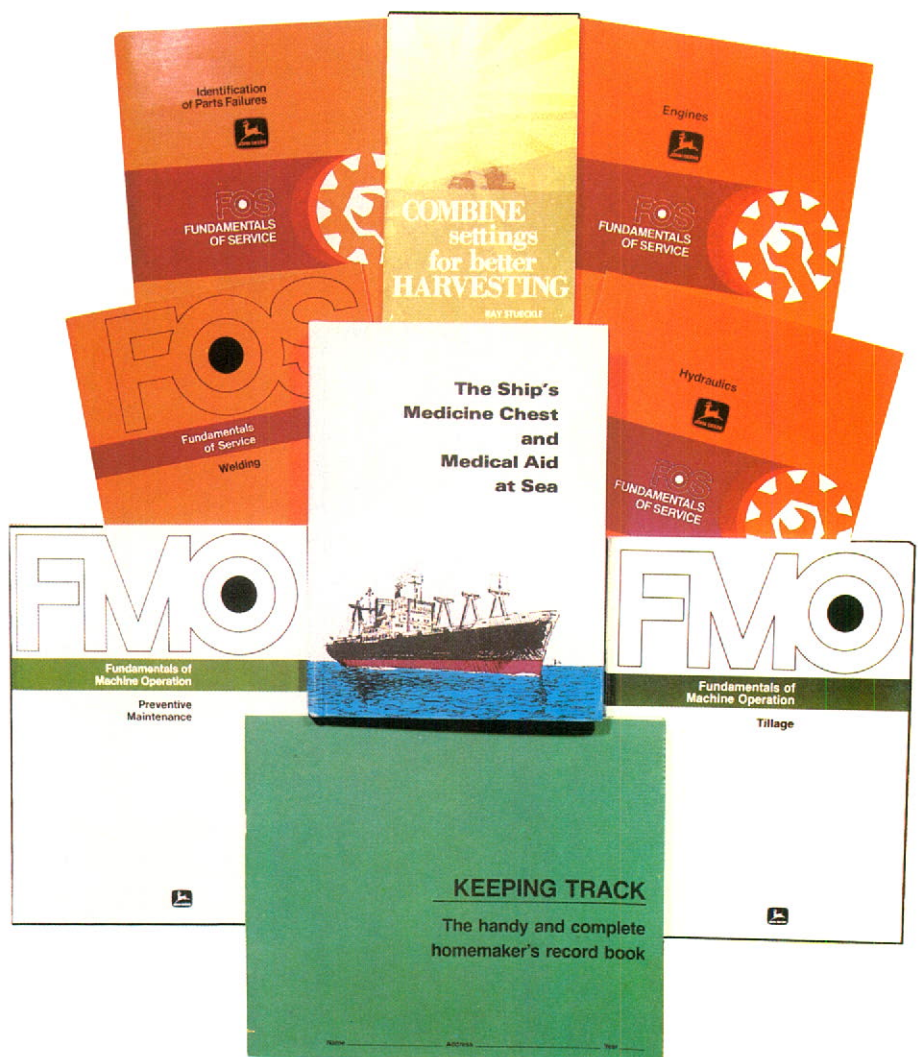
UGG Insurance Services, established in 1918, continued to develop its role as agent and broker in general insurance. The service is at three levels: corporate risk management, in-

surance services, and financial services.

Your company's own insurance program has a *total deductible* clause for each fiscal year. In a year of no losses the money budgeted for the annual aggregate deductible is retained by United Grain Growers.

Theft of property or inventory is a form of loss that reduces your company's profits. Last year, as a measure to try and reduce theft UGG participated in Operation Provident, a national commercial crime prevention program.

This program includes placing decals on all doors, windows and gates of company property. All portable equipment is stamped with an iden-



Some of the books available from UGG Farmer's Library



tification number that is registered with the police. It also includes random stamping of inventory such as cans of herbicides, pesticides and bags of seed. The identification system helps deter thieves and if items are stolen helps police trace them.

The company's insurance programs for customers continue to be popular. Started in 1960 with one plan, six different insurance plans are now available:

- Farmer Group Life (Cash Value Insurance Plan)
- Farmer Group Life (Term Insurance Plan)
- Farmer Group Accident Plan
- Farmer Group Registered Retirement Savings Plan (Tax Saver)
- Farmer Group Snowmobile Insurance Plan
- Farmer Group Income Replacement Plan.

Each of these plans is underwritten on a group basis thereby providing farm customers the lowest priced premiums for the benefits.

The Farmer Group Life (Term Insurance Plan) had a large increase in subscribers during the last year. These were mostly younger farmers, showing awareness of the value of insurance when setting up their farm business.

The Registered Retirement Savings Plan (Tax Saver) was well received this past year. The plan offers farmers the opportunity to level out taxable income and defer income.

The Farm Income Replacement Plan was introduced as a service to farmers in the 1978 fiscal year. This plan offers farmers the same benefits as an employer/employee group plan at a reasonable cost.

Under the Farm Income Replacement Plan a farmer can ensure an income for himself and his family if he is sick or injured for more than 14 days. The premiums are about 20 per cent less than many comparable plans. The marketing program in the last fiscal year was a success. Indications suggest the plan will prove popular among farmers.

In 1978, United Grain Growers also expanded the service of the risk and insurance division to include a financial service for farmers. This service is free of charge to farmers and answers questions and provides help in estate planning, making wills, and retirement planning.

This financial service also provides customers with an annuity shopping service. Information compiled each month on annuity rates from 20 companies is the basis for quotations for clients. The service has blended well with the other financial services provided by United Grain Growers.

### **International Wheat Agreements**

The International Wheat Agreement (IWA), which entered into force in 1971, has again, through Agreement by Protocol, been extended to June 30, 1981.

The present agreement provides only for consultation in the event of threatened market instability, and serves mainly as an information source on the world wheat situation.

The directors of United Grain Growers believe the objectives of Canada in the international wheat market should remain the same. They want to encourage the vigorous expansion of Canadian export earnings. They want to pursue policies which put our export sector on a firm foundation for long-term growth. They believe that reasonable stability in the world market encourages such long-term, steady expansion of world wheat trade.

The directors of your company fully support consultations with other major wheat exporters in pursuit of these objectives, as was initiated this past spring in Saskatoon.

### **Conclusion**

This report shows that United Grain Growers is strong in financial resources and assets and continues to grow in strength and influence.

After reviewing a year in which the second highest earnings in your company's 73 year history were recorded, the directors wish to acknowledge the source of United Grain Growers' strength. These are the customers who use its services and all the employees who supply these services.

The directors again wish to pay tribute to the work of members and directors of UGG locals. They kept a watchful eye over local business conditions and advised the directors and management of their first-hand impressions. The directors were guided by the excellent response to requests for advice on policy matters. In particular, they appreciate the reactions to the Canadian Wheat Board's purchase of hopper cars and increasing Crow's Nest Pass rates given the "guarantee of better service".

In 1,021 signed replies to a January poll by the directors of your company, Local Board directors substantially (68 per cent) opposed the purchase of hopper cars by the Canadian Wheat Board. On the Crow question, 47 per cent wanted Crow rates retained. Of those who favored increasing the rate, 18 per cent agreed to doubling the rates, 5 per cent to tripling, 9 per cent to quadrupling, and 6 per cent agreed to pay "more than" a 300 per cent increase over present rates.

Transportation policy remains an issue of major concern to Western farmers and United Grain Growers. Several references have been made to transportation policy in earlier sections of this report. Central to the issue is the question of grain freight rates.

The importance of grain freight rates is emphasized by the attention paid to them in the past year by farmers, farm organizations, and grain companies. Government-initiated studies headed by Murta, Booz-Allen, Snavelly and Hall, all made reference to the critical importance of resolving the rate issue even



though it was outside their individual terms of reference.

The board of directors of your company emphasized the importance of adequate compensation for transportation of grain in its 70th annual report in 1976. That report stated: "Crow rates without adequate compensation from the Government have resulted in a rail line system hopelessly expensive to operate and maintain if left as it is."

The board of directors of United Grain Growers continue to be concerned about the evolution of the transportation system if this issue is not resolved. UGG is committed to working with producers of both grain and livestock, farm organizations and the federal government with the objective of a unified prairie transportation policy. The basic objectives of this policy should be to ensure that the most effective and efficient transportation system evolves and at the same time to guarantee the Prairie's comparative advantage in the livestock and secondary processing industries.

The time is now ripe for new steps to be taken on the rate issue. It is critical for all parties involved to recognize the evolving realities of grain transportation in Western Canada and approach discussions on this subject with an open mind. All Western agriculture will reap the benefits of a timely resolution of the issue.

**In assessing the affairs of United Grain Growers, it is important to realize the success of your company is**

largely due to the volume of grain annually delivered by the thousands of members and customers. This report shows that the number of bushels of grain handled is the key to maintaining and rebuilding your country elevator system. No one can vouch better for UGG's grain handling services than the farmer who delivers his grain to UGG. It is vital that customers do what they can to induce other farmers to deal with your company. The competition United Grain Growers provides benefits all farmers.

It is competition for business which has provided untold savings to all farmers throughout the West. With numbers of elevators becoming fewer every year, this competition becomes even more important. The directors strongly urge all members to carefully consider their company's business, and remember it is volume that counts, and that with the increased costs of doing business, the only basis on which United Grain Growers can continue to operate at present margins is to increase the volume. This increase largely rests with members. An active campaign for business by every member among his neighbors would have the desired results.

As we move into the 1980s, it is well to remember the past decade has been a good one for United Grain Growers. In the past 10 years, your company has become the largest feed company in Western Canada and a partner in a large oilseed crushing facility. It has embarked on

an aggressive domestic and export grain marketing program and, most recently, has introduced an extensive contract program for special crops. For the first time in its history, country grain operations of your company penetrated more than 17 per cent of the Prairie grain market.

United Grain Growers is now most of the way through the extensive modernization program at its Vancouver terminal which already is showing marked improvement in plant efficiency and handling capability. Steps are continuing in order to revitalize your country elevator system.

In less than two years, United Grain Growers will mark its 75th anniversary. Even E. A. Partridge, founder of UGG's predecessor, the Grain Growers' Grain Company, could not have envisioned such growth when, in 1905, he proposed "the time is ripe for inaugurating a co-operative movement to the extent of forming a company of farmers to undertake the marketing of their wheat." With the support of its members, *this* Farmers' Company will go much further in the 1980s.



*President*

Winnipeg, Manitoba  
November 7, 1979



## Charter and Capital Stock

United Grain Growers Limited was incorporated in 1906 under a Manitoba Charter and reincorporated in 1911 under an Act of Parliament of Canada. This Act, with amendments passed on seven different occasions, is the Company Charter today.

Authorized capital consists of \$25,000,000 made up of 1,200,000

Class "A" shares with a par value of \$20.00 each and 200,000 Class "B" (Membership) shares with a par value of \$5.00 each. Class "A" shares are non-voting, non-cumulative preferred, callable in whole or in part at \$24.00 per share. They rank *pari passu* with Class "B" shares upon winding up. Class "A" shares carry a

dividend preference of 5 per cent per annum to the extent earned before any other dividend is paid.

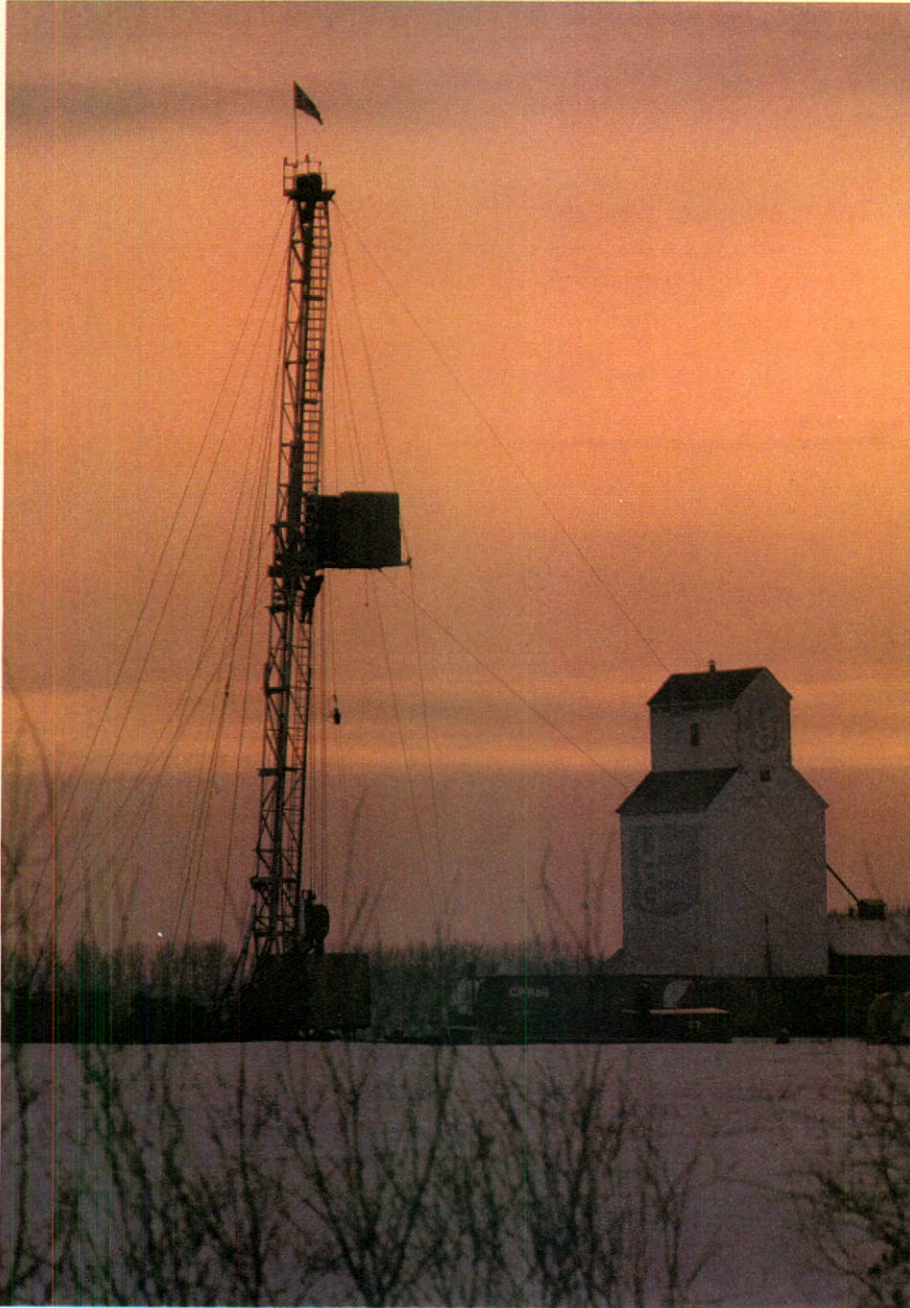
Under a Charter amendment in 1976 additional dividends on Class "A" shares may be declared at the rate of  $\frac{1}{2}$  per cent per annum up to a maximum of 3 per cent out of profits available for dividends, provided dividends for Class "B" membership shares for the same year are declared at not less than the total rate for Class "A" shares. Such additional dividends at the rate of  $1\frac{1}{2}$  per cent per annum bring the rate to  $6\frac{1}{2}$  per cent per annum which was paid in 1979. Anyone may hold Class "A" shares but no one person can hold more than 5,000 such shares.

While no voting rights attach to Class "A" shares most holders have voting rights through owning Class "B" shares.

The issue and transfer of Class "B" membership shares is subject to approval of the board of directors. This is done to limit them to western Canadian farmers. No more than 25 shares may be held by one person. They may be purchased and reissued by the company provided that no more than 10 per cent of the shares outstanding are held at any one time.

Holders of Class "B" shares are organized in some 299 shareholders' Local Boards, in which each member casts one vote. Each Local Board elects a Delegate to annual and general meetings; the expenses of Delegates who attend such meetings are paid by the company. Control of the company by its farmer members is exercised by this Delegate system. Delegates and directors must hold a Class "B" share and have an investment of not less than \$25 in shares in the company.

The company board consists of 12 directors, 4 of whom are elected each year for a 3-year term. By-laws of the company require 3 directors in Manitoba, 4 in Saskatchewan, 4 in Alberta south of the Peace River District and 1 in either the Alberta or British Columbia area of the Peace River District.

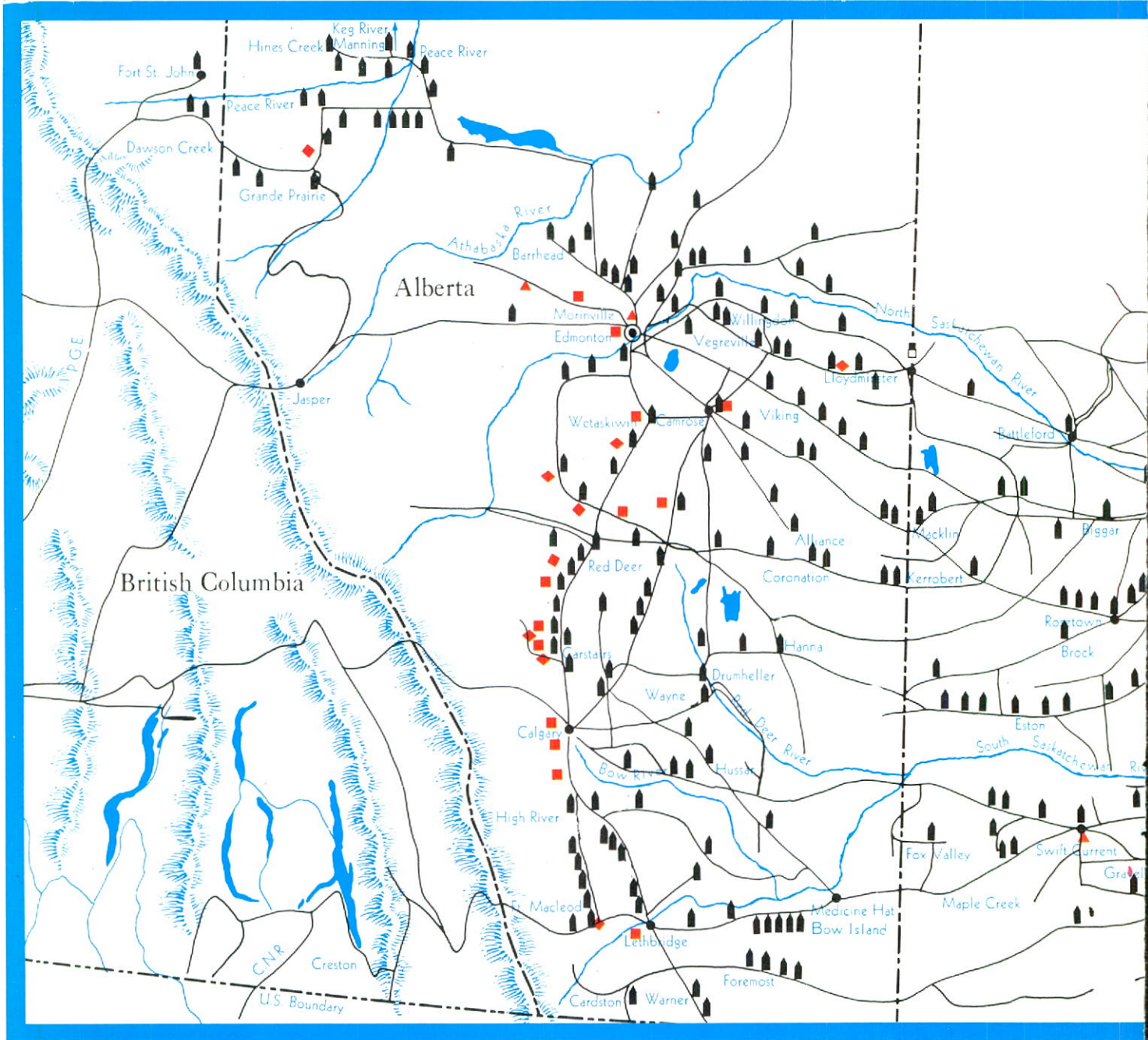


*Old low-volume elevators will close. This one has found new life in the form of an oil well that appears to be located on the in-drive.*



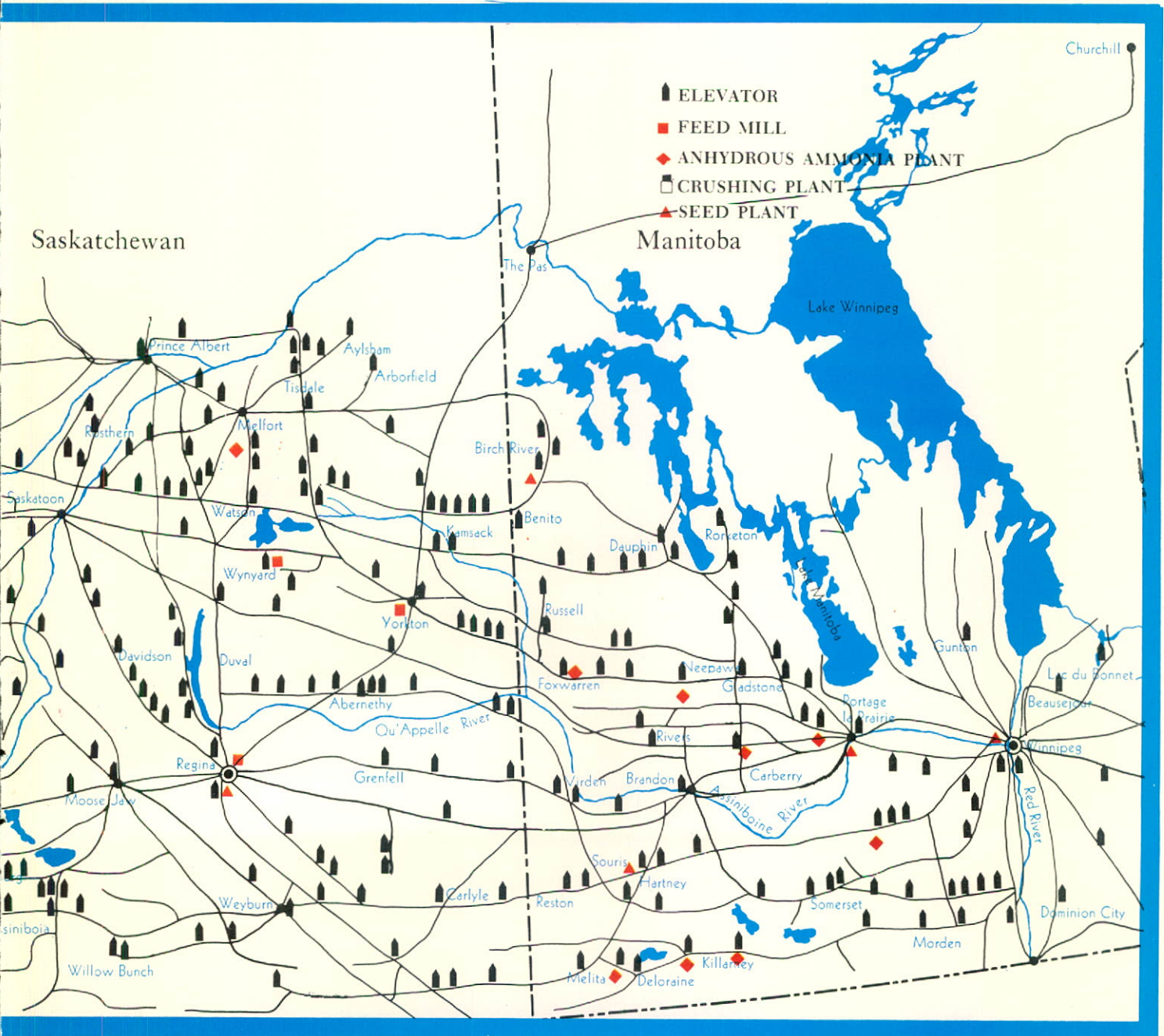


The Company that 70,0





# 100 prairie farmers built





# Management's Report to the Shareholders



## UNITED GRAIN GROWERS LIMITED

UNITED GRAIN GROWERS BUILDING  
433 Main St., Winnipeg, Manitoba, Canada  
P.O. BOX 6600, R3C 3A7  
TELEPHONE 944-5411, TELEX 07-57809

October 10, 1979

To the Shareholders,  
United Grain Growers Limited,

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied from year to year. Careful judgments have been made in the preparing of the financial statements. Estimates and approximations are sometimes necessary because many matters affecting the current financial statements, such as the provision for uncollectible accounts receivable and depreciation of fixed assets, will not be finally resolved until months or years have passed. It therefore follows that the financial statements cannot be precise statements of fact. They have, however, in management's opinion, been properly prepared within reasonable limits of materiality, and within the framework of the accounting policies outlined in Note 1 of the Notes to the Financial Statements.

Management believes the internal control systems in use by the Company are adequate to provide a reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records properly reflect the Company's financial position and results of its operations.

The independent auditors, Price Waterhouse & Co., provide an objective, independent review of management's discharge of its responsibilities where they relate to internal control systems, reported operating results and the financial position of the Company.

  
General Manager

  
Treasurer



# Auditors' Report to the Shareholders



2200 One Lombard Place  
Winnipeg, Man. R3B 0X7  
(204) 943-7321 Telex 07-587728

October 10, 1979

To the Shareholders,  
United Grain Growers Limited:

We have examined the statements of earnings, retained earnings and changes in working capital of United Grain Growers Limited for the year ended July 31, 1979, and the statement of financial position at that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the results of the company's operations and the changes in its working capital for the year ended July 31, 1979 and its financial position at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in blue ink that reads "Price Waterhouse &amp; Co." in a cursive script.

Chartered Accountants



# Financial Statements

## Earnings

For the Year Ended July 31, 1979

		1978 Comparison
Sales and revenue from services	\$890,288,000	\$782,445,000
Operating revenues	\$ 78,385,000	\$ 69,629,000
Gain on property disposals (note 2)	1,380,000	522,000
Share of associated company's net earnings (loss) (note 6)	1,608,000	(216,000)
	<u>\$ 81,373,000</u>	<u>\$ 69,935,000</u>
Operating, general and administrative expenses (notes 3 and 4)	70,776,000	63,083,000
Earnings before patronage dividend and income taxes	\$ 10,597,000	\$ 6,852,000
Provision for patronage dividend	1,850,000	1,700,000
	<u>\$ 8,747,000</u>	<u>\$ 5,152,000</u>
Provision for deferred income taxes	2,380,000	2,127,000
Net earnings	<u>\$ 6,367,000</u>	<u>\$ 3,025,000</u>

## Retained Earnings

For the Year Ended July 31, 1979

		1978 Comparison
Balance at beginning of year	\$ 29,478,000	\$ 27,264,000
Net earnings	6,367,000	3,025,000
	<u>\$ 35,845,000</u>	<u>\$ 30,289,000</u>
Deduct:		
Dividend of 6½% declared on Class A Shares	\$ 789,000	\$ 788,000
Dividend of 6½% provided on Class B Shares	27,000	23,000
	<u>\$ 816,000</u>	<u>\$ 811,000</u>
Balance at end of year	<u>\$ 35,029,000</u>	<u>\$ 29,478,000</u>



# Changes in Working Capital

For the Year Ended July 31, 1979

		1978 Comparison
<b>Working Capital Derived From</b>		
Operations		
Net earnings	\$ 6,367,000	\$ 3,025,000
Charges against earnings not requiring use of working capital	5,781,000	7,932,000
	<hr/>	<hr/>
	\$ 12,148,000	\$ 10,957,000
 Issue of promissory notes	 253,000	 25,000
	<hr/>	<hr/>
	\$ 12,401,000	\$ 10,982,000
	<hr/>	<hr/>
<b>Working Capital Applied To</b>		
Capital expenditures for properties, net	\$ 16,309,000	\$ 13,643,000
Investment in associated companies (note 6)	10,000	700,000
Retirement of long-term liabilities		
Promissory notes and purchase agreement	994,000	1,056,000
Patronage dividend liabilities	285,000	99,000
Shareholders' dividends	816,000	811,000
Other	—	8,000
	<hr/>	<hr/>
	\$ 18,414,000	\$ 16,317,000
	<hr/>	<hr/>
 <b>Decrease in Working Capital</b>	 \$ (6,013,000)	 \$ (5,335,000)
Working capital at beginning of year	24,473,000	29,808,000
	<hr/>	<hr/>
Working capital at end of year	\$ 18,460,000	\$ 24,473,000
	<hr/> <hr/>	<hr/> <hr/>



# Financial Position

July 31, 1979

## ASSETS

### Current

1978  
Comparison

Cash	\$ 2,321,000	\$ 2,825,000
Deposits — The Canadian Wheat Board	6,073,000	9,545,000
Accounts and accruals receivable	44,907,000	41,870,000
Inventories (note 5)	173,638,000	121,061,000
Prepaid expenses	2,666,000	2,265,000
	<u>\$229,605,000</u>	<u>\$177,566,000</u>


### Other

Deferred financing expense	\$ 209,000	\$ 221,000
Investments (note 6)	2,652,000	1,034,000
	<u>\$ 2,861,000</u>	<u>\$ 1,255,000</u>

### Fixed

Properties, at cost (note 7)	\$128,450,000	\$111,211,000
Accumulated depreciation	46,757,000	42,680,000
	<u>\$ 81,693,000</u>	<u>\$ 68,531,000</u>

Approved by the Board:

 Director

 Director

\$314,159,000 \$247,352,000



## LIABILITIES

		1978 Comparison
<b>Current</b>		
Bank loans, secured (note 8)	\$ 85,910,000	\$ 62,993,000
Other loans	70,432,000	33,460,000
Unpresented grain and other cheques	36,826,000	40,741,000
Accounts payable and accruals	15,972,000	13,675,000
Dividend payable to shareholders	789,000	890,000
Current maturities of long-term liabilities	1,216,000	1,334,000
	<u>\$211,145,000</u>	<u>\$153,093,000</u>
<b>Long-Term</b>		
Series A debentures (note 9)	\$ 20,000,000	\$ 20,000,000
Promissory notes (note 10)	2,890,000	3,513,000
Purchase agreement maturing \$118,000 annually to 1995	1,766,000	1,884,000
Patronage dividends (note 10)	15,083,000	14,641,000
	<u>\$ 39,739,000</u>	<u>\$ 40,038,000</u>
<b>Deferred Taxes on Income</b>	<u>\$ 14,585,000</u>	<u>\$ 12,205,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (note 11)		
Class A non-voting non-cumulative redeemable preferred shares callable at \$24, par value \$20 each Authorized 1,200,000 shares; Outstanding 662,328 shares	\$ 13,247,000	\$ 12,129,000
Class B (membership) shares par value \$5 each Authorized 200,000 shares; Outstanding 82,831 shares	414,000	409,000
<b>Retained Earnings</b>	35,029,000	29,478,000
	<u>\$ 48,690,000</u>	<u>\$ 42,016,000</u>
	<u>\$314,159,000</u>	<u>\$247,352,000</u>



# Notes to Financial Statements

July 31, 1979

## 1. Accounting Policies

### *Sales and Revenue from Services*

Sales and revenue from services include the sales value of grain purchased for the account of and delivered to The Canadian Wheat Board.

### *Inventories*

Grain held in store or in transit for the account of The Canadian Wheat Board is valued on the basis of Board initial prices and handling costs.

Other grain inventories are valued on the basis of closing market quotations and handling costs and also reflect gains and losses accrued on open grain purchase and sales contracts as at the close of the fiscal year, which is in accordance with grain industry practice.

Farm supplies, seeds and feeds inventories are valued at the lower of cost or net realizable value.

### *Deferred Financing Expense*

Expenses relating to the issue of the Series A debentures are being amortized over the life of the debentures.

### *Properties*

All properties are valued at cost. The Company uses a combination of straight-line and diminishing-balance methods of providing depreciation over the estimated useful lives of the properties for financial statement purposes as follows:

TYPE OF ASSET	Depreciation Rates and Methods	
Country elevator and feed mill properties . . . . .	6%	Diminishing Balance
Terminal elevator properties . . . . .	2% to 3%	Straight Line
Terminal elevator and printing plant machinery and equipment . . . . .	10%	Straight Line
Feed mill machinery . . . . .	10%	Diminishing Balance
Other equipment, tools, furniture and fixtures . . . . .	20%	Diminishing Balance

## 2. Gain on Property Disposals

Gain on property disposals primarily represents the excess of insurance proceeds over the net book values of three country elevator facilities destroyed by fire during the year.

## 3. Operating, General and Administrative Expenses

		1978 Comparison
Operating, general and administrative expenses include —		
Depreciation	\$ 4,527,000	\$ 4,442,000
Interest on long-term debt	3,196,000	3,223,000
Interest on other debt, net of interest recovered from The Canadian Wheat Board	6,999,000	1,328,000

## 4. Remuneration of Directors and Officers

Total remuneration of \$71,000 (1978 — \$61,000) was paid to eleven of the directors in their capacity as directors, and a total of \$350,000 to seven officers (1978 — \$335,000) in their capacity as officers. One of the officers is also a director of the Company.

## 5. Inventories

		1978 Comparison
Grain held for the account of The Canadian Wheat Board	\$ 65,062,000	\$ 74,298,000
Grain held for the Company's own account	86,647,000	29,650,000
Farm supplies, seeds and feeds	21,929,000	17,113,000
	<u>\$173,638,000</u>	<u>\$121,061,000</u>

The grain inventory includes both hedged and unhedged positions.



		1978 Comparison
<b>6. Investments</b>		
Prince Rupert Grain Terminal Consortium Ltd.	\$ 10,000	\$ —
Northland Bank Common shares	<u>\$ 100,000</u>	<u>\$ 100,000</u>
United Oilseed Products Ltd. (one-third equity)		
Shares, at cost	\$ 2,600,000	\$ 1,900,000
Advances	—	700,000
Share of operating results to date	<u>(58,000)</u>	<u>(1,666,000)</u>
	<u>\$ 2,542,000</u>	<u>\$ 934,000</u>
	<u>\$ 2,652,000</u>	<u>\$ 1,034,000</u>

The Company has entered into an agreement with five other grain companies to form Prince Rupert Grain Terminal Consortium Ltd. The Consortium has entered into a memorandum of understanding with the Government of Canada whereby the feasibility of constructing a new grain terminal elevator at Prince Rupert, British Columbia is being studied.

The Company has guaranteed one-third of a \$4,000,000 bank line of credit granted to United Oilseed Products Ltd. and is contingently liable with respect to one-third of an issue of \$16,000,000 redeemable first preferred shares issued in November 1978 by that company.

		1978 Comparison
<b>7. Properties</b>		
Country elevator properties, feed plants, seed cleaning plants, warehouses, sheds, etc.	\$ 74,003,000	\$ 67,978,000
Terminal elevator properties	48,369,000	37,506,000
Printing plant equipment	1,266,000	1,263,000
Miscellaneous equipment	4,812,000	4,464,000
	<u>\$128,450,000</u>	<u>\$111,211,000</u>

The Company is lessee of office premises and equipment, various storage facilities and sites, a printing plant building, country housing for employees, and licensed vehicles under leases with terms ranging up to seventeen years, involving current minimum annual rental payments of approximately \$2,500,000.

#### 8. Bank Loans

Inventories and accounts receivable have been pledged as security for the bank loans.

#### 9. Series A Debentures

The Series A debentures bear interest at the rate of 10¼% per annum, are secured by a first mortgage on real property and by a floating charge on all other assets and are repayable in annual instalments of \$950,000 on April 1, 1981 through 1996 with the balance due April 1, 1997.

#### 10. Promissory Notes and Patronage Dividends

Promissory notes and patronage dividend debentures and credits mature in each of the fiscal years as follows:

	Promissory Notes	Patronage Dividend Debentures and Credits
1981 .....	\$ 816,000	\$ 196,000
1982 .....	748,000	1,465,000
1983 .....	613,000	2,086,000
1984 .....	713,000	1,907,000
1985 .....	—	4,247,000
1986-89 .....	—	3,332,000
	<u>\$ 2,890,000</u>	<u>\$ 13,233,000</u>

Provision for allocation on 1978-79 grain purchases .....	1,850,000
	<u>\$ 15,083,000</u>

#### 11. Share Capital

A portion of the 1977-78 patronage dividend was allocated to customers by the issuance of Class A and B shares on July 31, 1979. The allotment consisted of 55,851 Class A shares with a par value of \$1,117,020 and 2,628 Class B membership shares with a par value of \$13,140.

In addition, during the year 13 Class A shares were issued at par value and 1,564 Class B shares were purchased for re-issue.



# Comments on Financial Statements

The attached financial statements were prepared by management and, because the Company is organized under a Federal Charter, they comply with requirements of the Canada Corporations Act.

These statements are comprised of statements of Earnings, Retained Earnings, Changes in Working Capital, Financial Position, Notes to Financial Statements and the Auditors' Report to the Shareholders.

## Earnings

The Earnings statement shows sales and revenue from services of \$890,288,000, which includes the sale value of grains purchased for the account of and delivered to The Canadian Wheat Board.

The statement also shows operating revenues for the year of \$78,385,000, gain on property disposals of \$1,380,000 and share of associated company's net earnings of \$1,608,000. Operating, general and administrative expenses amounting to \$70,776,000 include interest expense, net of interest recovered from The Canadian Wheat Board of \$10,195,000 and provision for depreciation of \$4,527,000. This leaves earnings of \$10,597,000 before patronage dividends and income taxes.

Provision for patronage dividends on grain purchases during the past fiscal year is \$1,850,000.

Provision for taxes on income is \$2,380,000, all of which is deferred.

This leaves net earnings of \$6,367,000 which amount is carried to Retained Earnings.

## Retained Earnings

Retained Earnings at the beginning of the fiscal year were \$29,478,000. The addition of net earnings brings the total to \$35,845,000. From this amount is deducted a dividend of 6½ per cent declared on class A shares, amounting to \$789,000, and a dividend provision of 6½% amounting to \$27,000 on Class B shares. Retained Earnings are \$35,029,000 at the end of the fiscal year and are an essential source of funds for the ongoing investment in new and improved facilities of the Company.

## Changes in Working Capital

The Changes in Working Capital statement shows that the sources of working capital are derived from net earnings of

\$6,367,000, charges against earnings not requiring use of working capital of \$5,781,000 and issue of promissory notes of \$253,000.

Working capital was used during the year for capital expenditures for properties of \$16,309,000 after deduction of proceeds on property disposals, investment in the Prince Rupert Grain Terminal Consortium Ltd. of \$10,000, retirement of long-term promissory notes and purchase agreement of \$994,000, patronage dividend liabilities of \$285,000 and shareholders' dividends of \$816,000.

The net decrease in working capital for the year amounts to \$6,013,000 (1978 — \$5,335,000 decrease) which brings the total to \$18,460,000 (1978 — \$24,473,000) at the end of the fiscal year. The working capital position of the Company is satisfactory. It indicates financial strength and is an important factor in the Company's ability to borrow large amounts of funds on favorable terms from banks and other lending institutions.

## Financial Position Assets

Cash ..... \$2,321,000  
(1978 — \$2,825,000). This is mainly cash in transit to banks and standing deposits which are maintained at the request of banks as part of borrowing arrangements. Also included are petty cash funds in various offices.

Deposits — The  
Canadian Wheat Board ..... \$6,073,000  
(1978 — \$9,545,000). The Company, in conjunction with other grain companies, has an agreement with The Canadian Wheat Board whereby the Company makes deposits to the Board representing the value of Board grains purchased on deferred cash tickets. The deposits earn interest at the prime lending rate of the Chartered Banks and are refundable to the Company when the deferred cash tickets become due and payable.

Accounts and Accruals  
Receivable ..... \$44,907,000  
(1978 — \$41,870,000). This includes accounts owing by customers for farm supplies, grain, feeds and seeds. It also includes accrued charges on grain carried in country elevators for the account of The Canadian Wheat Board, and accrued storage charges on grain in terminal elevators. An allowance of \$2,494,000



(1978 — \$2,458,000) is carried against possible uncollectible accounts.

**Inventories . . . . . \$173,638,000**

(1978 — \$121,061,000). Grain held for the account of The Canadian Wheat Board amounting to \$65,062,000 (1978 — \$74,298,000) consists of wheat, oats and barley in store in country elevators or in transit purchased for the account of The Canadian Wheat Board. They are valued on the basis of purchase prices set by the Board and handling costs. When such grain is purchased, the Company advances the initial payment to the producer for which it will be reimbursed by The Canadian Wheat Board when the grain is delivered to terminal elevators.

Grain held for the Company's own account amounting to \$86,647,000 (1978 — \$29,650,000) include rye, flaxseed, rapeseed and feed grades of wheat, oats and barley. They are valued on the basis of closing market quotations and handling costs and also reflect gains and losses accrued on open grain purchase and sales contracts as at the close of the fiscal year, which is in accordance with grain industry practice.

The value of grain inventories is higher than a year ago, because of higher quantities and values of grain in the country.

The remainder of the Inventories of \$21,929,000 (1978 — \$17,113,000) include feeds, seeds, fertilizers, agricultural chemicals and twine. Stocks of these are carried at many locations to be available as required.

**Prepaid Expenses . . . . . \$2,666,000**

(1978 — \$2,265,000). This represents payments made in advance that are chargeable to operations in the next fiscal year. Included are construction supplies and repair parts which are carried in stock for future needs and insurance premiums.

**Current Assets . . . . . \$229,605,000**

(1978 — \$177,566,000). This is the total of the foregoing items and is to be compared with the total current liabilities of \$211,145,000 shown on opposite side of the Financial Position statement. The difference of \$18,460,000 is working capital (1978 — \$24,473,000).

**Deferred Financing Expense . . . . . \$209,000**

(1978 — \$221,000). This represents un-

amortized legal costs and commissions associated with the issue of the Series A debentures. These costs are being amortized over the life of the debentures.

**Investments . . . . . \$2,652,000**

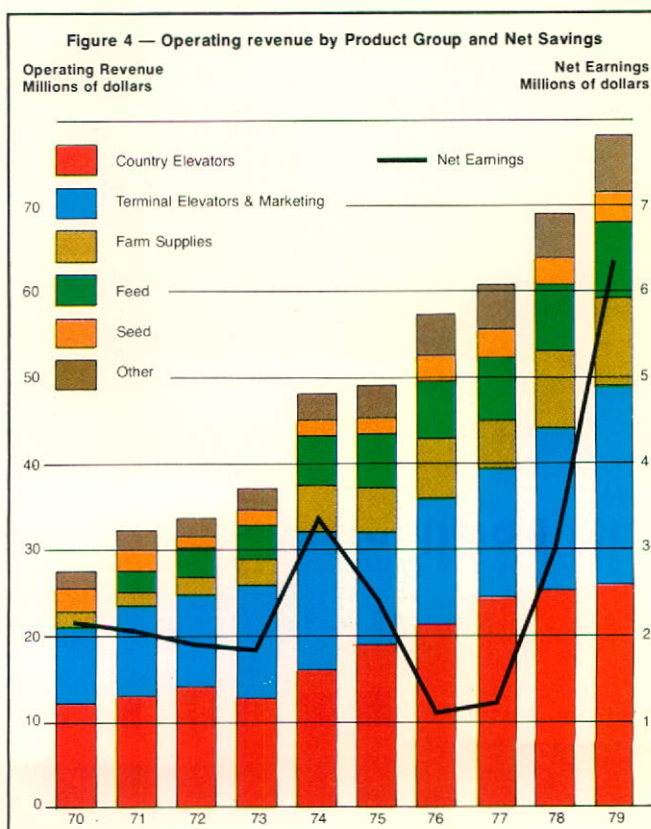
(1978 — \$1,034,000). This includes \$2,600,000 representing the cost of one-third of the issued common shares of United Oilseed Products Ltd., less \$58,000 representing one-third of the operating losses to date, investment of \$100,000 in common shares of Northland Bank, and an investment of \$10,000 in Prince Rupert Grain Terminal Consortium Ltd.

**Properties, at Cost . . . . . \$128,450,000**

(1978 — \$111,211,000). This represents the cost of properties owned at the year end. The increase mainly includes the cost of improvements and additions of \$6,025,000 to country properties and \$10,863,000 to terminal properties.

**Accumulated Depreciation . . . . \$46,757,000**

(1978 — \$42,680,000). Provision is made out of earnings each year to add to this amount a definite percentage of the cost





of each building, or equipment, until such cost has been recovered. Percentages generally are uniform from year to year, but vary from one type of asset to another. The depreciation provision for the year is \$4,527,000 (1978 — \$4,442,000).

This accumulated depreciation figure relates to properties owned at the year end. When properties are disposed of, the relevant accumulated depreciation is deducted from this item.

**Total assets** . . . . . **\$314,159,000**  
(1978 — \$247,352,000). This total is higher than a year ago mainly because of the higher quantities and values of grain inventories and the additional investment in properties.

### Liabilities

**Bank Loans, Secured** . . . . . **\$85,910,000**  
(1978 — \$62,993,000). These loans are shared among four of Canada's largest chartered banks on a basis agreed to when they established the Company's line of credit for the fiscal year. They are secured by pledge of specific assets including accounts receivable and inventories. Under the Canadian Wheat Board Act and by contract, the Company is allowed to pledge Board grains as security for the purpose of borrowing from a chartered bank. Such borrowing provides funds for the initial payment on wheat, oats and barley for the account of The Canadian Wheat Board, which reimburses the Company when the grain is delivered to a terminal elevator. When the year began, interest on these bank loans was at the rate of 9<sup>3</sup>/<sub>4</sub>% per annum and at the time of writing is 13<sup>3</sup>/<sub>4</sub>%.

The increases in bank and other loans are due mainly to higher inventories.

**Other Loans** . . . . . **\$70,432,000**  
(1978 — \$33,460,000). This includes loans obtained in the short-term money market against the Company's promissory notes. The volume fluctuates with variations in the amount of money offered in that market. Lenders are mainly financial institutions and business firms who have money to loan for a brief period of time. Interest rates vary frequently and are usually lower than the bank rate. The Company is highly regarded in the short-term

money market, where its notes are readily placed by investment brokers who specialize in such transactions.

A number of demand loans from customers of the Company are also included in this item.

### Unpresented Grain and Other

**Cheques** . . . . . **\$36,826,000**  
(1978 — \$40,741,000). This includes general cheques, coupons and grain purchase cheques in transit to banks as well as those which, for one reason or another, have not been presented for payment. Approximately \$12,000,000 (1978 — \$14,000,000) is represented by grain purchase cheques which were post-dated to 1980.

### Accounts Payable and

**Accruals** . . . . . **\$15,972,000**  
(1978 — \$13,675,000). This includes amounts owing for goods and merchandise carried in the inventories and services already received prior to the close of the fiscal year. It also includes interest accrued on current borrowings and on long-term liabilities.

### Dividend Payable to

**Shareholders** . . . . . **\$789,000**  
(1978 — \$890,000). This represents 6<sup>1</sup>/<sub>2</sub>% on the paid-up value of Class A shares as at July 30, 1979, declared before the end of the fiscal year but payable thereafter. It is made up of the preferential dividend of 5% to which holders of such shares are entitled to the extent earned, plus an additional 1<sup>1</sup>/<sub>2</sub>%. Provision has been made elsewhere for corresponding payment on Class B membership shares, but declaration has been deferred in accordance with the practice of accumulating such amounts for declaration every fourth year, as it was done in 1978.

### Current Maturities of

**Long-Term Liabilities** . . . . . **\$1,216,000**  
(1978 — \$1,334,000). Amounts due within twelve months after the date of the Financial Position statement are treated as current liabilities. Consequently, this item includes such payments to be made on principal of long-term liabilities.

This amount includes patronage dividend obligations of \$222,000, promissory notes of \$876,000 and instalment of purchase agreement of \$118,000.



**Total Current Liabilities . . . . . \$211,145,000**  
(1978 — \$153,093,000). This total has already been compared with Total Current Assets in order to establish the amount of working capital.

**Series A Debentures . . . . . \$20,000,000**  
On April 1, 1977 \$20,000,000 sinking fund debentures bearing interest at the rate of 10¼% were placed privately to finance capital projects. These debentures are secured by a first mortgage on real property and by a floating charge on all other assets. They are repayable in annual instalments of \$950,000 in 1981 through 1996 with the balance due April 1, 1997 when the debentures mature.

**Promissory Notes . . . . . \$2,890,000**  
(1978 — \$3,513,000). These are unsecured promissory notes maturing at various dates more than twelve months from the date of the Financial Position statement.

The outstanding notes include \$266,000 in loans from customers and shareholders at varying rates of interest, depending upon time of issue and length of term. Interest on these loans is covered by coupons cashable or interest cheques payable at intervals of six months.

Other promissory notes in the amount of \$2,624,000 were issued in prior years for longer periods.

**Purchase Agreement . . . . . \$1,766,000**  
(1978 — \$1,884,000). This relates to the purchase on August 1, 1965 of the terminal elevator at Vancouver and payments are due in annual instalments of \$118,000 in each of the years 1980 to 1995.

**Patronage Dividends . . . . . \$15,083,000**  
(1978 — \$14,641,000). This includes the amount of \$1,850,000 as provided from earnings for patronage dividends on grain purchases for the year just ended. It also includes credits and debentures issued against grain purchases for previous years. These credits and debentures bear interest at 3, 4 or 6% depending upon the year of issue and are redeemable in varying amounts annually on May 15 until 1989.

**Deferred Taxes on Income . . . . \$14,585,000**  
(1978 — \$12,205,000). The Income Tax Regulations allow a faster write-off of certain depreciable properties than the depreciation charges that are considered to be adequate for accounting purposes. The depreciation provision is generally calculated on a consistent and uniform basis from year to year, reflecting a reasonable annual charge against income for the physical use over the expected life of the depreciable properties employed in the Company's operations.

Deferred taxes, therefore, arise from the Company's practice of claiming for taxation purposes capital cost allowances in excess of the depreciation annually provided. The procedure reduces the amount of tax payable now and provides annually for income taxes which may become due in future years when capital cost allowances then deductible for tax purposes will be correspondingly less.

This practice is recommended by the accounting profession in Canada.

**Share Capital . . . . . \$13,661,000**  
(1978 — \$12,538,000). At July 31, 1979, the paid-up value of Class A shares outstanding is \$13,247,000 and the par value of Class B shares outstanding is \$414,000.

**Retained Earnings . . . . . \$35,029,000**  
(1978 — \$29,478,000). This represents the cumulative amount of net earnings reinvested in the Company.

**Shareholders' Equity . . . . . \$48,690,000**  
(1978 — \$42,016,000). This includes Share Capital and Retained Earnings and represents the total shareholders' investment in the Company.

**Total . . . . . \$314,159,000**  
(1978 — \$247,352,000). This is the sum of Liabilities and Shareholders' Equity and is the same as the Total Assets recorded opposite on the Financial Position statement.



## Ten-Year Comparative Summary

Financial	1979	1978	1977
Operating revenues	\$78,385	\$69,629	\$61,640
Earnings before patronage dividends and income tax	10,597	6,852	1,936
Net earnings	6,367	3,025	1,280
Working capital	18,460	24,473	29,808
Capital expenditures — net	16,309	13,643	11,433
Total investment in fixed assets	128,450	111,211	98,894
Accumulated depreciation on fixed assets	46,757	42,680	40,086
Paid-up share capital	13,661	12,538	12,546
Shareholders' equity	48,690	42,016	39,810
Cumulative total of shareholders' dividends	16,092	15,303	14,412
Cumulative total of patronage dividends including interest thereon	48,546	46,214	43,931
<b>Statistical</b>			
Country handling — in thousands of tonnes	3,612	4,170	3,734
Elevator licensed storage capacities — in thousands of tonnes			
Country	1,639	1,666	1,681
Terminal	424	424	424
Number of country elevator manager units	402	420	434
Total licensed elevators	628	648	669
Number of employees	1,908	1,816	1,910
Number of shareholders	92,892	87,015	90,651
Number of shareholders' locals	299	306	311



1976	1975	1974	1973	1972	1971	1970
(000's)						
\$57,251	\$49,845	\$48,638	\$37,381	\$34,234	\$32,117	\$27,186
5,305	7,399	13,274	4,729	5,052	5,085	4,222
1,065	2,569	3,374	1,809	1,932	2,045	2,106
19,964	21,252	20,960	13,900	11,874	11,450	8,878
9,874	5,037	3,785	4,246	4,135	1,722	1,275
87,513	78,069	74,196	70,991	67,671	63,658	59,517
36,914	34,072	32,080	30,105	28,774	27,112	24,904
10,428	9,190	6,796	6,797	6,797	6,795	6,425
37,096	35,348	30,798	27,833	26,432	24,906	22,899
13,759	13,229	12,838	12,381	11,990	11,599	11,208
43,319	40,079	36,832	29,255	27,658	26,131	24,728
3,407	2,770	3,088	3,456	3,284	2,843	2,402
1,738	1,756	1,800	1,803	1,792	1,858	1,865
424	424	424	452	456	466	466
(units)						
452	472	481	492	499	534	546
701	720	750	759	768	793	825
2,104	2,022	2,003	2,100	2,116	1,956	1,801
81,898	77,603	57,798	57,992	57,642	58,063	56,142
313	317	323	327	330	326	331



## 1979-80 Budgets for New Elevator Construction

To construct new elevator facilities at today's costs requires careful evaluation of potential grain handling and farm supply sales. Handling tariff increases have not been able to offset escalating operating costs. The Budget outlines illustrated below are a major factor used in determining new construction projects. A 25-year write-off period and interest rates of 12% are assumed.

### Construction Alternative A

Proposal to build a 3,500-tonne composite elevator at a location where the present plant is beyond repair. The new plant is estimated to cost \$610,000.

#### Projected Long-Run Market Conditions

- Average handle of 15,000 tonnes.
- Average sales of \$125,000.
- Average daily stocks in store of 65% of licensed capacity.
- A balance of revenues and expenses on incidental items.

Revenues		Expenses	
<b>Handling Earnings:</b> 5.50 x 15,000 tonnes	\$ 82,500	<b>Direct Operating:</b> \$3.80 x 15,000 tonnes	\$ 57,000
<b>Sales Earnings:</b> 20% x \$125,000	25,000	<b>Direct Fixed:</b>	86,000
<b>Storage Earnings:</b> 3,500 tonnes x .65 x .024 x 365	19,929	<b>Overhead &amp; Administration:</b>	
<b>Terminal Earnings:</b> 80¢ x 15,000 tonnes	12,000	\$2.60 x 15,000 tonnes	39,000
<b>Total</b>	<b>\$139,429</b>	<b>Total</b>	<b>\$182,000</b>
		<b>Loss</b>	<b>\$ 42,571</b>

Projected Handlings (tonnes)	Projected Sales \$	Total Revenue \$	Exp./Tonne Handling \$	Total Expense \$	Net Position \$
15,000	125,000	139,429	12.13	182,000	- 42,571
18,000	140,000	161,329	11.17	201,200	- 39,871
21,000	165,000	185,229	10.49	220,400	- 35,171
24,000	200,000	211,129	9.98	239,600	- 28,471
27,000	250,000	240,000	9.58	258,800	- 18,800
30,000	300,000	268,929	9.26	278,000	- 9,071
33,000	350,000	297,829	9.00	297,200	+ 629

**Conclusions: The above Table setting out the position for Elevator Construction Alternative A shows that handling of over 30,000 tonnes (1¼ million bushels) and sales of over \$300,000 of farm supplies are required to break even. These volumes are substantially higher than the projected market potential. The market, as described, would not support the development of the 3,500 tonne facility.**

### Construction Alternative B

Proposal to build a 5,000 tonne composite elevator at a point where the present plant is beyond repair. The cost of the new plant is estimated to be \$800,000. The projected long-run market conditions are similar to those in Alternative A for stocks in store and incidental items. An average handle of 25,000 tonnes and farm supply sales of \$250,000 are projected.

Revenues		Expenses	
<b>Handling Earnings:</b> \$5.50 x 25,000 tonnes	\$137,500	<b>Direct Operating:</b> \$3.80 x 25,000 tonnes	\$ 95,000
<b>Sales Earnings:</b> 20% x 250,000	50,000	<b>Direct Fixed:</b>	102,000
<b>Storage Earnings:</b> 5,000 tonnes x .65 x .024 x 365	28,470	<b>Overhead &amp; administration:</b>	
<b>Terminal Earnings:</b> 80¢ x 25,000	20,000	\$2.60 x 25,000 tonnes	65,000
<b>Total</b>	<b>\$235,970</b>	<b>Total</b>	<b>\$262,000</b>
		<b>Loss</b>	<b>\$ 26,030</b>

Projected Handlings (tonnes)	Projected Sales \$	Total Revenue \$	Exp./Tonne Handling \$	Total Expense \$	Net Position \$
25,000	250,000	235,970	10.48	262,000	- 26,030
28,000	300,000	264,870	10.04	281,200	- 16,330
31,000	350,000	293,770	9.69	300,400	- 6,630
34,000	400,000	322,670	9.40	319,600	+ 3,070

**Conclusions: The above table shows that under Alternative B a handling of approximately 34,000 tonnes and farm supply sales of \$400,000 are required to reach and exceed the break-even point. The facility could not be built for a market with 25,000 tonnes handling potential and sales potential of \$250,000.**

The above information illustrates two alternatives on construction of new facilities and the importance of handling and sales volumes whenever new construction is being considered. Today's cost of money is having a dramatic effect on Capital Planning.



# Country Elevator Closures

Country elevator operating costs heading into the 1980s indicate more elevators will close. The present rate of inflation and current interest rates lead to an acceleration in closures.

One of the most difficult decisions United Grain Growers has to make is to close a country elevator. Closing an elevator is an unpleasant task because in all instances it means customers and members are being deprived of a service location they have patronized for years. But unpleasant as it is, consolidation is essential to maintain the overall economic health of the company.

In order to maintain handling tariffs at levels farmers consider reasonable, it is essential that higher volumes of grain and greater farm supply sales be made to hold the unit costs down.

Let's take a look at the facts and some actual cases to illustrate why closures come about.

### Actual Case 1: Limited Market Area

In an area where alternative market locations have good access roads and are within a reasonable driving distance, a specific market's growth can be restricted because of the encirclement by other markets. In such cases, it may be possible to continue to operate the station as long as no capital requirements are necessary. But as soon as major renovations are required, the financial capability of the station prevents such investment from being made.

The following is an actual case where the market area potential was *not* adequate to cover costs of a scale and driveway renovation estimated to cost \$110,000. If the plant had been able to continue without renovation it may still have been in operation.

### Projected Market Conditions & Current Operation

- An average handle of 5,000 tonnes.
- Average sales of \$15,000.
- Average daily stocks in store of 65% of licensed capacity.
- A balance of revenues and expenses on incidental items.

Revenues	Expenses
<b>Handling Earnings:</b> \$5.50 x 5,000 tonnes ..... \$27,500	<b>* Direct Operating:</b> ..... \$23,000
<b>Sales Earnings:</b> 20% x \$15,000 ..... 3,000	<b>* Direct Fixed:</b> ..... 7,000
<b>Storage Earnings:</b> 1,700 tonnes x .65 x .024 x 365 . . . 9,679	<b>* Overhead &amp; Administration:</b> ..... 8,000
<b>Terminal Earnings:</b> 80¢ x 5,000 tonnes ..... 4,000	
<b>Total</b> ..... \$44,179	<b>Total</b> ..... \$38,000
<b>Net Profit</b> ..... <u>\$ 6,179</u>	

Operating without any major expense to the unit generates a modest profit of \$6,179.00

This plant's condition reached a point where \$110,000 of renovations is required to restore it to a reasonable operating condition. Because of its limited potential the budget results look as follows:

Revenues	Expenses
<b>Unchanged at:</b> ..... \$44,179	<b>Direct Operating:</b> ..... \$23,000 unchanged
	<b>Direct Fixed:</b> ..... 21,000 changed
	<b>Overhead &amp; Administration:</b> ..... 8,000 unchanged
<b>Total</b> ..... \$44,179	<b>Total</b> ..... \$52,000
<b>Net Loss</b> ..... <u>\$ 7,821</u>	

The fact that the plant can no longer be operated in its current condition, coupled with the unfavourable financial results of the operation when placed in a heavy debt situation due to the increase in fixed costs, indicates that closure is required.

In this case there are three factors that precipitated the closure.

- Condition of plant.
- Capital requirements.
- Limited market area.

**\*Direct Operating Costs.** These costs include all direct operating costs including managers salaries, repairs, utilities and interest on operating capital.

**\*Direct Fixed Costs.** These costs include depreciation, interest on investment, taxes, site rentals and insurance on fixed assets.

**\*Overhead & Administration.** These costs include administration of the unit from support positions such as management, customer services, accounting systems, area office and head office. Overhead and administration costs are assessed on the basis of revenue generation, and reflect the ability or inability of a specific unit to bear its share of these costs.

### Actual Case 2: Elevator Fires can Mean Closure of a Station

If your company is unfortunate enough to have an elevator destroyed by fire, it is possible it would not be replaced.

Let us take the example of an elevator that is doing a good job of providing service and built within the last 15 or 20 years, handles a fair volume of grain, and makes fair farm supply sales. The economic rules under which it was constructed allow it to provide reasonable financial results. However, place a fixed costs tag on the facility and the financial results are completely unsatisfactory.



**Projected Market Situation**

- An average handle of 13,000 tonnes.
- Farm supply sales of \$100,000.

- Average daily stocks in store of 65% of licensed capacity.
- A balance of revenues and expenses on incidental items.

<b>Revenues</b>	
<b>Handling Earnings:</b> \$5.50 x 13,000 tonnes	\$71,500
<b>Sales Earnings:</b> 20% x \$100,000	20,000
<b>Stored Earnings:</b> 3,500 tonnes x .65 x .024 x 365	19,929
<b>Terminal Earnings:</b> 80¢ x 13,000 tonnes	10,400
<b>Total</b>	<u>\$121,829</u>
<b>Balance</b>	<u>+\$ 23,529</u>

<b>Expenses</b>	
<b>Direct Operating</b>	\$49,000
<b>Direct Fixed:</b>	15,500
<b>Overhead &amp; Administration:</b>	
\$2.60 x 13,000	33,800
<b>Total</b>	<u>\$98,300</u>

This is a satisfactory operation.

Then the fire strikes, and the basic minimum replacement plant will cost \$610,000.

<b>Revenues</b>	
<b>Unchanged at:</b>	\$121,829
<b>Total</b>	<u>\$121,829</u>
<b>Net Loss</b>	<u>\$ 46,971</u>

<b>Expenses</b>	
<b>Direct Operating:</b>	\$ 49,000 unchanged
<b>Direct Fixed:</b>	86,000 changed
<b>Overhead &amp; Administration:</b>	
\$2.60 x 13,000	<u>33,800</u> unchanged
<b>Total</b>	<u>\$168,800</u>

The cost of the new structure in the situation described is too high to warrant the construction of a new elevator.

In this case the fire destroyed a good operating plant that could have provided adequate service for many years. The new capital costs become the prohibitive factor when considering rebuilding. In this case the elevator would not be replaced.

**Actual Case 3: Uncertain & Limited Rail Service**

Today's operating costs require a continuous flow of rail cars to accommodate an adequate volume of business. UGG has stations that are limited in their capability by the rail service. Some rail lines do not receive service during the winter months. From the time the first snowflake falls in the fall until the track bed dries up in the spring, the station is virtually out of business.

The station might have the potential to receive 15,000 tonnes but because of limited rail service receives the opportunity to handle 8,000 tonnes.

The potential budget would be most satisfactory as illustrated.

**Market Situation**

- Handling 15,000 tonnes.
- Farm supply sales \$80,000.

<b>Revenues</b>	
<b>Handling Earnings:</b> \$5.50 x 15,000 tonnes	\$82,500
<b>Sales Earnings:</b> 20% x \$80,000	16,000
<b>Storage Earnings:</b> 3,000 tonnes x .65 x .024 x 365	17,082
<b>Terminal Earnings:</b> 80¢ x 15,000 tonnes	12,000
<b>Total</b>	<u>\$127,582</u>
<b>Net Profit</b>	<u>\$ 2,582</u>

<b>Expenses</b>	
<b>Direct Operating:</b> \$3.80 x 15,000 tonnes	\$57,000
<b>Direct Fixed:</b>	29,000
<b>Overhead &amp; Administration:</b>	
\$2.60 x 15,000 tonnes	39,000
<b>Total</b>	<u>\$125,000</u>

However only 8,000 tonnes is achieved because of the rail service. Therefore, the actual results are as follows:

<b>Revenues</b>	
<b>Handling Earnings:</b> \$5.50 x 8,000 tonnes	\$44,000
<b>Sales Earnings:</b> 20% x \$50,000	10,000
<b>Storage Earnings:</b> 3,000 tonnes x .65 x .24 x 365	17,082
<b>Terminal Earnings:</b> 80¢ x 8,000 tonnes	6,400
<b>Total</b>	<u>\$77,482</u>
<b>Net Loss</b>	<u>\$17,118</u>

<b>Expenses</b>	
<b>Direct Operating:</b> \$5.60 x 8,000 tonnes	\$44,800*
<b>Direct Fixed:</b>	29,000
<b>Overhead &amp; Administration:</b>	
\$2.60 x 8,000 tonnes	<u>20,800</u>
<b>Total</b>	<u>\$94,600</u>



## APPENDIX C

If the rail service cannot be improved by upgrading of the track, the elevator's life is in question. UGG does continue this type of operation for a number of years usually 3 to 5 before final closure is made. This period of grace is allowed because of the uncertainty of plans for the railroad. If improvements can be made the business has a chance of success; if not, it becomes a financial drain on the UGG system with no chance for improvement.

\*In this case it is demonstrated that a reduction in volume does not permit a comparable reduction in costs.

### Actual Case 4: Low Volume Operations

Low volume operations are left in the system for many years where the financial results are marginal and no capital expenditures are required. An actual case to illustrate this situation is as follows:

#### Market Situation

- An average handling of 4,000 tonnes.
- Average sales of \$20,000.
- Average daily stocks in store of 65% of licensed capacity.

Revenues	Expenses
<b>Handling Earnings:</b> \$5.50 x 4,000 tonnes .....	<b>Direct Operating:</b> \$3.80 x 4,000 tonnes .....
\$22,000	\$15,200
<b>Sales Earnings:</b> 20% x \$20,000 .....	<b>Direct Fixed:</b> .....
4,000	12,500
<b>Storage Earnings:</b> 1,500 tonnes x .65 x .024 x 365 ..	<b>Overhead &amp; Administration:</b> .....
8,541	10,400
<b>Terminal Earnings:</b> 80¢ x 4,000 tonnes .....	
3,200	
<b>Total</b> .....	<b>Total</b> .....
\$37,741	\$38,100
<b>Net Loss</b> .....	
\$ 359	

These operations can be maintained if the losses are limited and *no new capital investment is required*. The volumes handled and sales potential do not offer managers the income potential or the challenges they desire in today's market place.

### Actual Case 5: Closures to Provide New Facility

In a district where the company is situated at a number of points all within a limited area, and where driving distances between points is reasonable, it is essential some of the stations be phased out. This phase-out occurs when the district requires a new facility to provide adequate service.

In such instances the company's position is guided by the financial requirements of an operation to support the high capital costs of construction. Where this type of closure is required, the planning stages would involve consultation with the UGG local boards to ensure all parties have an understanding of the plan and the requirements.

#### Conclusion

In summary there are a number of factors that ultimately determine the closure of a country elevator. The main closure factors are low volume of grain deliveries and low farm supply sales. Without these two basic requirements the life of an elevator station is most likely to come to an end. The end comes quickly if a major renovation is required.

Similarly, volume and sales are the two main requirements to support a new plant, renovations and upgrading. If major capital investment is made at a station, it indicates that grain handling volume and farm supply sales are at a high level or have an immediate potential to grow.

## APPENDIX C

# Dimensions of the Box-Car Shortage

There is a general impression in Canada that there is a shortage of railway stock for the movement of grain. The directors of United Grain Growers instructed its research group to analyze the boxcar situation, to determine if it could discover just *how great* the shortage is.

The research group worked from public data on the size of the grain car fleet, specifically using the recent Booz-Allen, Hamilton study; figures provided to the Canadian Wheat

Board by the railways and published in *Grain Matters* in April 1978; Canada Grains Council study completed in 1975, *The Definition of the Problem*.

The final figures are presented in Table 8. They clearly show three things.

- Despite impressions to the contrary, the size and capability of the rail fleet has not been shrinking, it has been growing.
- By the end of the 1980/81 crop

year, grain movement will not be hampered by a shortage of rolling stock.

- While reliable and accurate data in the early part of the 1970's is hard to acquire, there is some evidence to suggest that performance of cars in the grain fleet was not as efficient in the past two crop years as it was in the 1971-73 period.

**Number of Cars.** The difficulty in identifying the number of cars avail-



able for grain is that the number is not a fixed figure. Cars are assigned into and out of grain service depending upon other traffic demands. The farther back in years one goes, the more this is true, since there were more general purpose boxcars in the fleet years ago and there was more shifting back and forth between grain and other traffic.

In more recent years, *other uses* for the general purpose boxcar have declined. Hopper cars have been purchased specifically for grain and, accordingly, the grain fleet is now more clearly defined.

This difficulty notwithstanding, there are a few benchmark figures to work from:

- In October 1975, a Canada Grains Council study put the number of boxcars in grain service at 21,000. These car numbers were provided to the Council by the railways. The figures in this report generally referred to 1973 data. After some analysis and comparison to the other figures, this 21,000 figure was placed as the 1972-73 boxcar fleet, and the 1971-72 boxcar fleet was estimated at 23,000 boxcars. The Canada Grains Council study also indicated a rate of decline in number of boxcars somewhat below the more precise figures published in *Grain Matters* in April, 1978, as indicated below.

- In April, 1978, the Canadian Wheat Board publication to farmers, *Grain Matters*, showed the number of boxcars at April, 1977 as 7,500 for CN and 7,700 for CP. The *Grain Matters* article also gave the rate of decline as 1,800 boxcars per year.

- The recently published Booz-Allen study gave the number of boxcars in 1977 as 7,457 for CN and 6,874 for CP. (This is a gross figure, including cars under repair, which normally averages approximately 5% of the fleet.) The Booz-Allen projected rate of decline was approximately equal to that indicated by the *Grain Matters* article.

To estimate the number of cars in the basic boxcar grain fleet, the re-

searchers started with 23,000 cars in 1971-72 and assumed an initial decline of 2,000 cars to 1972-73, and an annual decline of 1,500 cars per year thereafter to 1977-78. This brings one into line with both the Booz-Allen and Canadian Wheat Board's *Grain Matters* figures. Thereafter, Booz-Allen figures were used and these were in fact, quite close to the numbers published in *Grain Matters*.

This basic boxcar fleet has been added to by government boxcar rehabilitation programs. The first of these was in 1974-75, putting 2,400 cars into the system. The second was in early 1979, covering 3,000 cars. The most recent program, in September, 1979, includes a further 2,000 cars.

However, the most important addition to the rolling stock for grain has been the introduction of hopper cars. The hopper fleet will soon encompass 10,000 cars bought or leased by the federal government, 2,000 cars bought by the Canadian Wheat Board, 1,000 bought by the Saskatchewan government and 1,000 by the Alberta government.

Taking each steel hopper car as being equivalent to one and one-half boxcars, and each aluminum hopper at one and one-quarter boxcars, Table 7 shows what the grain fleet looked like.

This table leads to two conclusions:

First, contrary to the general public impression, the rolling stock available for grain service has not declined in recent years. In fact, the number of cars, measured in boxcar equivalents, has actually expanded since the 1971-72 crop year.

Second, with the new cars coming on stream, the number of boxcar equivalents will stand at 34,936 by the 1980-81 crop year, an increase of 52 per cent since the 1971-72 crop year.

Note that Table 7 assumes that the new additions to the fleet by the federal government and the provin-

cial governments of Alberta and Saskatchewan will all be on stream by the end of 1980/81. In fact, these new acquisitions will probably not be completed until the 1981/82 crop year. This fact however, does not alter the conclusions of this study.

**Fleet Capability.** The next question to address is the ability of these cars to move grain. In 1971-72, the 23,000 cars moved a total of 25.6 million tonnes (1 billion bushels) of grain. To accomplish this with 23,000 boxcars would have required each car to make 20 trips per year (18 days per trip).

This is not an unreasonable figure, and it can be taken as a benchmark of performance against which to measure subsequent years.

Hopper cars, because they are easier to load and unload, because they don't require cleaning and because they tend not to be operated on low density lines, have a faster turn-around time than boxcars. The Booz-Allen study found hoppers made two trips per year more than boxcars.

However, the Booz-Allen study also found slower turn-around times than are indicated by UGG's 1971-72 analysis. Booz-Allen found hoppers made 20 trips per year, while boxcars made only 18.

Although the Booz-Allen figures are based on fleet performance during only part of the year, it is worth noting that they also agree with Carl Snavelly's 1977 report on grain costs. In his operating data for the whole of the calendar year 1977, Snavelly found car turnaround time of 18.9 days (equivalent to 19.3 trips per year).

On the basis of these figures, both maximum and minimum figures for the capability of the grain car fleet can be calculated based on the following:

	<u>Hoppers</u>	<u>Boxes</u>
Max.	22 trips yr.	20 trips yr.
Min.	20 trips yr.	18 trips yr.

Table 8 shows a range of fleet capability based upon:



a) The upper and lower estimates for the car cycle shown above;

b) The rail fleet shown in Table 7;

c) A load factor of 55 tonnes/box-car.

d) A down time allowance of 3% for hopper cars and 5% for boxcars (from Booz-Allen).

Note that this would slightly over-estimate the fleet capability for the earlier years, since at that time there were many 40 ton box-cars still in service.

These figures lead to more conclusions:

By the time present car acquisition and rehabilitation commitments are completed, there will be sufficient cars in the grain fleet to handle the 30 million tonnes of exports everyone hopes will be reached by 1985. Furthermore, provided that aging boxcars retired after 1981 continue to be replaced, insufficient rolling stock will no longer be a constraint to grain movement.

#### Utilization of the Grain Fleet.

Having examined the capability of the fleet, we want also to look at actual performance. Table 8 also shows the actual volume of grain moved by the railways in each year from 1971-72 to 1978-79. As can be seen, the actual movement was consistently below the minimum potential every year from 1974-75 to 1977-78.

Before discussing these factors, one must enter the production and carry-over figures into the picture.

**Production and Carry-over.** Table 8 also shows total grain production in western Canada over the period from 1971-72 to 1979-80. What stands out is the enormous peak in production for the three years 1976-77 to 1978-79. Before 1976-77, the record production of the six major grains was 34 million tonnes in 1971. Production in each of the three years, 1976, 1977 and 1978, exceeded this prior record.

Since all of this record production was not moved, carry-overs rose from about 14 million tonnes at July 31,

**Table 7**  
**Number of Cars in the Grain Fleet**

Year	Basic Boxcar Fleet	Reha- bilitated Boxcars	Hopper Cars	Total Fleet	Total Boxcar Equivalent
1971/72	23,000			23,000	23,000
1972/73	21,000		2,000	23,000	24,000
1973/74	19,590		2,000	21,500	22,500
1974/75	18,000	2,400	2,000	22,400	23,400
1975/76	16,200	2,400	4,000	22,600	27,000
1976/77	14,400	2,400	6,000	22,800	25,200
1977/78	12,648	2,400	8,000	23,048	26,448
1978/79	10,604	2,400	8,000	21,004	24,404
1979/80	8,734	7,400	10,000	26,134	30,534
1980/81	7,136	7,400	14,000	28,536	34,936

1976 to about 23 million tonnes at July 31, 1979, a rise of 9 million tonnes. It is this 9 million tonnes accumulated in store rather than being moved to market, that represents the "lost sales" reported publicly so often.

Before these three record years, carry-over had actually been reduced from 24.0 million tonnes at July 31, 1972 to the 14.0 million tonnes at July 31, 1976.

In order to get the full perspective of the boxcar situation, you have to look at all five factors we have examined: production, carry-over, number of cars, carrying capacity of the fleet, and actual volume moved. This has been done in Table 8. With these numbers, you can then examine the so-called car shortage.

**The Dimensions of the Car Shortage.** On the face of it, Table 8 suggests shortages of rolling stock was not the primary reason grain did not move to market over recent years.

For the three years 1973-74 to 1975-76 production was simply not great enough to sustain rail movement at the high levels of 1971-72 and 1972-73. Then came the three high production years and the corresponding increases in carry-over. There is, however, no evidence to

suggest that boxcar shortages consistently inhibited movement in 1976-77 or 1977-78. In these years, actual movement was below fleet capability. Only in 1978-79 did the actual use of cars once again climb into the calculated range of fleet carrying capacity as it did in the 1971-73 period, and hence only for 1978-79 is there evidence that lack of rolling stock was a constraint.

However, the figures from 1971-72 to 1973-74 indicate that shorter turn-around times are achievable, and so, even during this past year, more grain might have been moved in the available cars. That conclusion is borne out to some extent since on more than one occasion last year, the Canadian Wheat Board did not accept all the cars the railways offered. The Board was trying to move high protein wheat, and was concentrating its orders in high protein blocks. As a result, in some weeks, cars sat idle, and elevators in the northern areas sat with 3 CWRS wheat and barley while the railways hauled less than they could have.

The conclusion is also supported by results from Booz-Allen. Ship queues in Vancouver in the fall of 1978 were investigated. After intensive study, Booz-Allen concluded that ships were *not* waiting because



**Table 8**  
**Performance of the Grain Fleet Compared to its Potential**

Year	Size of Fleet (boxcar equivalent)	Carrying Capacity of Fleet		Actual Rail Movement	Production	Year End Carry over
		Min.	Max.			
( ←----- millions of metric tonnes -----> )						
71/72	23,000	21.6	24.0	25.6	34.3	23.8
72/73	24,000	23.0	25.5	24.7	30.6	16.3
73/74	22,500	21.5	23.9	21.5	31.8	16.7
74/75	23,400	22.4	24.8	20.1	26.2	14.2
75/76	27,000	27.1	30.0	22.4	31.7	13.7
76/77	25,200	24.7	27.4	23.3	38.5	18.6
77/78	27,448	26.3	29.1	25.2	36.8	20.1
78/79	24,404	24.3	27.0	25.0	37.8	23.3
79/80	30,534	30.6	33.8		31.3	
80/81	34,936	35.3	39.1			

of a shortage of rolling stock but were waiting because wheat of the *wrong protein* level was in the terminals.

So for 1978-79, although we seemed to be operating at the limit of the fleet's capability, it is not clear that shortage of rolling stock was consistently a constraint to movement. Furthermore, as we examine the situation, other questions suggest themselves:

- Did Canada really achieve 20 trips per year in 1971-72 or were there more general purpose boxcars in service at that time which moved in and out of grain? Perhaps moving the 25 million tonnes required not only the 23,000 grain cars, but several thousand other cars not normally part of the grain fleet. In fact we know that the railways had some additional cars under lease for some months in 1972.

- What is the effect of protein grading on fleet car use? The Booz-Allen study found ship queues at Vancouver in late 1978 were due to wheat stocks having the wrong protein level. Protein grading complicates the logistics of moving grain, but can those complications be overcome with *more* cars?

- What is the effect of higher open market movement of grains and oilseeds? The directors of United Grain Growers feel the present system for controlling car allocation is incompatible with having a large proportion of the grain — about 25 per cent — handled on the open market. Is the logistics system beginning to have a negative effect on car use?

- If there were more than 23,000 railway owned cars available in 1971-72, why aren't there extra cars available now? Are there fewer cars outside the grain fleet which are suitable for grain? Has other traffic grown so other cars are less readily available? Are the railways *deliberately* withholding extra cars from grain because of the Crow rates?

It is important to note that this lack of evidence for a severe car shortage over past years does not mean that the new cars that are entering the fleet should not have been acquired. The old boxcar fleet is declining and must be replaced. Also it is essential to gear up the system for much higher volumes in future years.

Many researchers have tried to analyze Canada's grain transportation

system. They have all fallen short of their objectives because the complexity of the system defies precise analysis. UGG's analysis has turned out no better than the rest. We had hoped to assess the extent of the car shortage, but now find the rail fleet in recent years seems not to have performed at levels it reached in the early 1970s.

With the complicating factors in the grain transportation system, the directors of your company cannot definitely conclude there has *not* been a shortage of railway rolling stock. It is likely that had more cars been consistently available throughout 1978-79, these additional cars would *sometimes* (not always) have been used, and as a result some more grain would likely have been moved to market.

We can conclude, however, the shortage of rail cars has been a much overplayed subject. Certainly, the impression that the physical parts of Canada's transportation system are wheezing their last, is wrong. By concentrating on just one facet of the problem, we lose sight of the many other things that need to be put right before the system can move the amounts of grain we want it to.





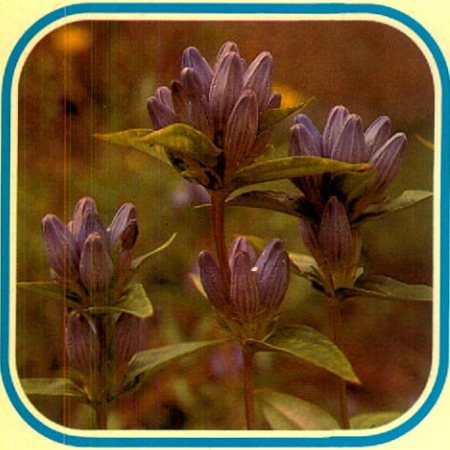
GAILLARDIA



BLUEBELL



BUTTERFLY WEED



CLOSED GENTIAN



WILD COLUMBINE



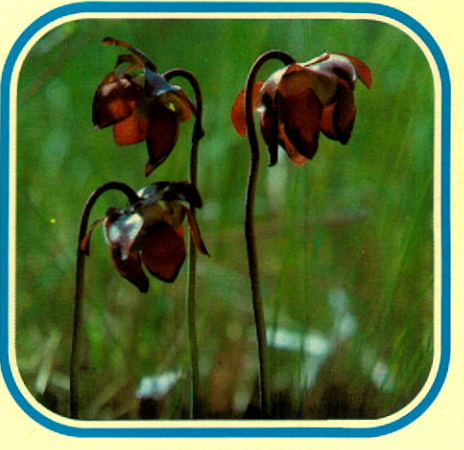
TUFTED FLEABANE



SHOOTINGSTAR



PLAINS PRICKLY-PEAR CACTUS



PITCHERPLANT



PINCUSHION CACTUS



PURPLE CLEMATIS



LILAC-FLOWERED BEARDTONGUE

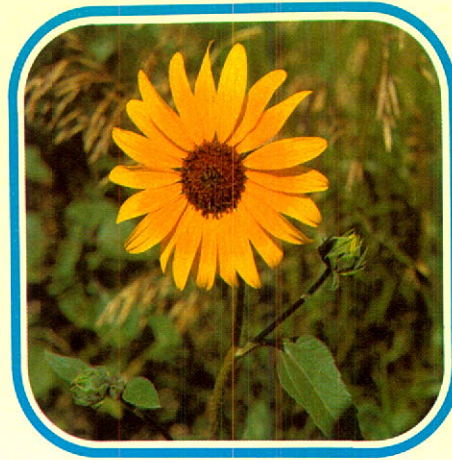




SCARLET MALLOW



BOG VIOLET



SUNFLOWER



TOADFLAX



JACK-IN-THE-PULPIT



PRAIRIE BUTTERCUP



LUPINE



SASKATOON



VENUS SLIPPER



SNEEZEWEED



FIREWEED



RED INDIAN PAINTBRUSH