PRAIRIE CHICKEN

# 74th Annual Report

To the Shareholders of

United Grain Growers

For the year ended
July 31, 1980

GREAT GRAY OWL

WHITE-BREASTED NUTHATCH

CARDINAL

DOWNY WOODPECKER

BOHEMIAN WAXWING

EVENING GROSBEAK

SAW-WHET OWL

SPRUCE GROUSE

BLUE JAY

GRAY JAY

HOUSE SPARROW

COMMON REDPOLL

SHARP-TAILED GROUSE

RED CROSSBILL

RED-BREASTED NUTHATCH

HOARY REDPOLL

PILEATED WOODPECKER

BARRED OWL

GOSHAWK

GYRFALCON

**COVERS:** In line with a policy established five 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 weed seeds, 23 breeds of horses, and 44 wild flowers have been illustrated. This year, 45 kinds of birds that overwinter on the Prairies are shown.

A country person knows birds and mammals as no other. Like an artist, the 'eye of the master' fattens the cattle and other livestock and poultry that mankind depends on for its sustenance. Such animals must of necessity be caged, penned or fenced.

Yet farm people know and love the beauty of wildthings: just as they value their comparatively free way of life, so they cherish the freedom of wildthings such as the birds who spend the harsh Prairie winters among them.

*But God knows well that nothing man may do*
*Will ever keep restrained a thing that nature*
*Has made innate in any human creature.*
*Take any bird and put it in a cage*
*And do your best affection to engage*
*And rear it tenderly with meat and drink*
*Of all the dainties that you can bethink,*
*And always keep it cleanly as you may;*
*Although its cage of gold be never so gay,*
*Yet would this bird, by twenty thousand-fold,*
*Rather, within a forest dark and cold,*
*Go to eat worms and all such wretchedness.*
*For ever this bird will do his business*
*To find some way to get outside the wires.*
*Above all things his freedom he desires.*

Chaucer (1340-1400)

This cover will be reprinted by the GRAIN GROWER, your company's farm business digest, and a text describing each will accompany the pictures. A copy of the GRAIN GROWER reprint is available at $1.25. Write to Wintering Birds, Box 6600, Winnipeg, R3C 3A7. Discounts on quantities of over 50.

# United Grain Growers Limited

## Associated Companies

United Oilseed Products Ltd.
Prince Rupert Grain Ltd.

## Contents

## 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.

Roy Cusitar
Russell, Man.

R. W. Piper
Elrose, Sask.

## Officers

A. M. Runciman, *President,* Winnipeg, Man.
T. M. Allen, *First Vice-President,* Taber, Alta.
L. F. Hehn, *Vice-President,* Markinch, Sask.
W. J. Craddock, *Vice-President,* Fannystelle, Man.
G. D. Moss, *General Manager,* Winnipeg, Man.
J. G. L. Bennett, C.A., *Treasurer,* Winnipeg, Man.
J. A. White, *Secretary,* Winnipeg, Man.

Auditors: Price Waterhouse & Co.

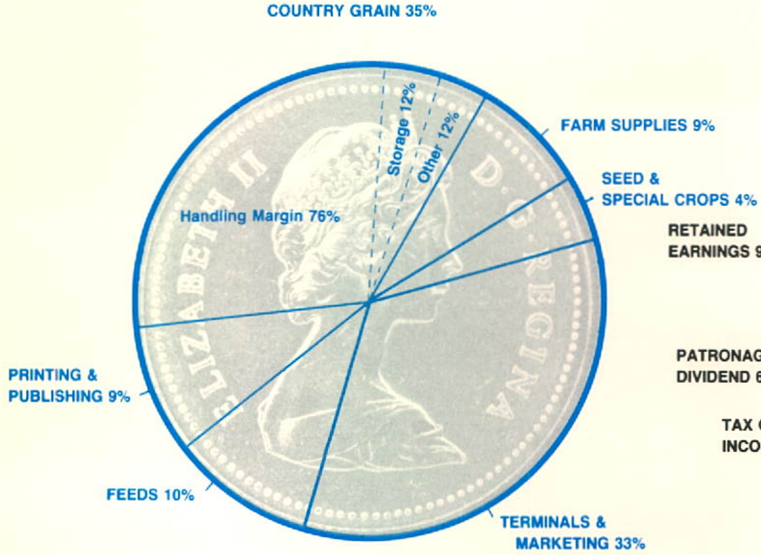
Head Office, Winnipeg, Canada

# Highlights

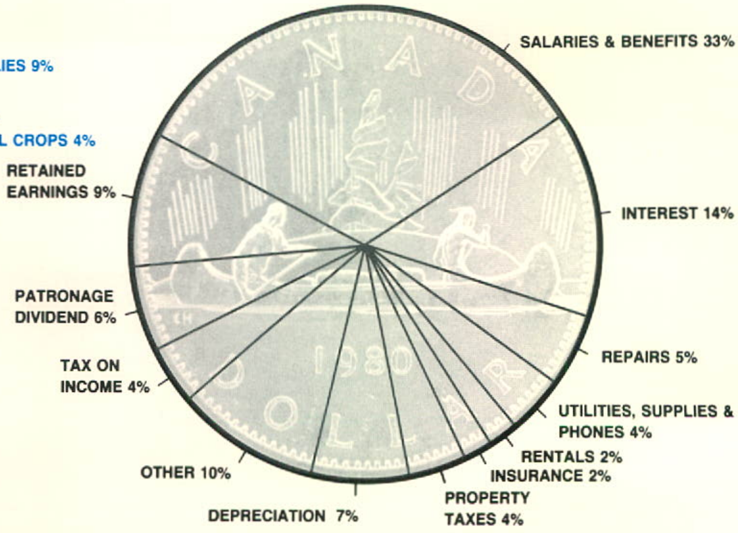
| Financial | 1980 | 1979 |
|---|---|---|
| Sales and revenue from services | $1,247,611,000 | $890,288,000 |
| Operating revenues | 102,696,000 | 78,385,000 |
| Earnings before patronage dividends and income tax | 20,270,000 | 10,597,000 |
| Net earnings | 9,195,000 | 6,367,000 |
| Working capital | 30,528,000 | 18,460,000 |
| Capital expenditures — net | 9,602,000 | 16,309,000 |
| Total investment in fixed assets | 138,054,000 | 128,450,000 |
| Accumulated depreciation on fixed assets | 52,039,000 | 46,757,000 |
| Paid-up share capital | 14,930,000 | 13,661,000 |
| Shareholders' equity | 58,197,000 | 48,690,000 |
| Cumulative total of shareholders' dividends | 17,019,000 | 16,092,000 |
| Cumulative total of patronage dividends, including interest thereon | 55,675,000 | 48,546,000 |

| Statistical | | |
|---|---|---|
| Country handling — in tonnes | 4,235,000 | 3,612,000 |
| Elevator licensed storage capacities — in tonnes | | |
| Country | 1,552,000 | 1,639,000 |
| Terminals | 424,000 | 424,000 |
| Number of country elevator manager-units (total elevators 584 in 1980 and 628 in 1979) | 381 | 402 |
| Number of shareholders | 90,053 | 92,892 |
| Number of shareholders' locals | 294 | 299 |

**TOTAL REVENUES**
**$102,696,000=100%**
**Your Company's Operating Revenue of $102,696,000 was earned this way**




**TOTAL DISTRIBUTIONS**
**$102,696,000**
**Your Company's Operating Revenue of $102,696,000 was distributed this way**



# Report of the President

**on behalf of the Board of Directors**

A. M. RUNCIMAN
*President*

The 74th year of United Grain Growers was a good one and the figures bear this out. Country grain handlings of 4.235 million tonnes were a record. Profits of $20.3 million*, almost double the previous year's $10.6 million, were the best in your company's history.

The improved profits allowed the directors to provide for $6.6 million in patronage dividends and to increase working capital by $12 million. Even after capital expenditures of $11 million in the 1980 fiscal year, the working capital on the eve of your company's 75th anniversary stood at $30.5 million — an amount that indeed places United Grain Growers in an enviable position to expand or withstand reversals.

***Before patronage dividend and income tax.**

Key operating and financial results this past year were:

- Profits in country elevator operations rose substantially from the previous year's $1.2 million to $6.9 million. Country grain operations showed better results mainly due to a 0.6 million tonne larger handle and faster movement of domestic cereals and oilseeds from country elevators, thereby avoiding carrying charge losses prevalent for several years. Profits from farm supply sales declined somewhat due to lower margins on fertilizer and higher interest rates.
- Terminal and grain marketing earnings of $7.2 million were up sharply over the previous year's $3.8 million. Handlings of 3.1 million tonnes were 0.4 million tonnes higher than the previous year. The improved terminal profits were also helped by higher margins on screenings and elevation. In marketing operations, improved earnings resulted mainly from higher margins on flax and rapeseed owned by your company.
- United Oilseed Products Ltd. had net earnings of $3.9 million, after providing for income tax and preferred share dividends. UGG's share, as one-third owner of this associated company, amounted to $1.3 million.
- United Feeds had record sales of $53 million, however, the rise was mainly due to higher ingredient costs increasing the selling prices of feeds. Volume of feed sales was 255,000 tonnes, down 12,000 from the year before. Earnings of $1.4 million were down from the $1.8 million the previous year.
- Seed sales in the 1980 fiscal year were slightly higher, but lower margins and increased costs halved profits to $0.3 million.
- The publishing and printing profits of Public Press were $1 million, compared to $0.3 million the previous year. The improved earnings are mainly attributable to record advertising in Country Guide and Cattlemen magazines, and reduced losses in the printing operations.
- The special crops operations of your company, established August 1, 1979, grossed $6.4 million in sales and had satisfactory profits. Crops handled included sunflowers, lentils, fababeans, corn and buckwheat.
- An insurance recovery of $1.4 million was realized when a number of elevators were destroyed by fire this past fiscal year.

**Despite 1980 being the only fiscal** year in recent memory where *all* segments of your company recorded a profit, in real terms the financial results can only be described as reasonable. The insidious nature of inflation is that you lose purchasing power even though numbers appear to be growing.

While United Grain Growers is taking depreciation on the cost of its assets, inflation is so high it doesn't allow the creation of sufficient funds to replace those assets. There is a capital "bind" despite your company's record earnings and all-time-high working capital position.

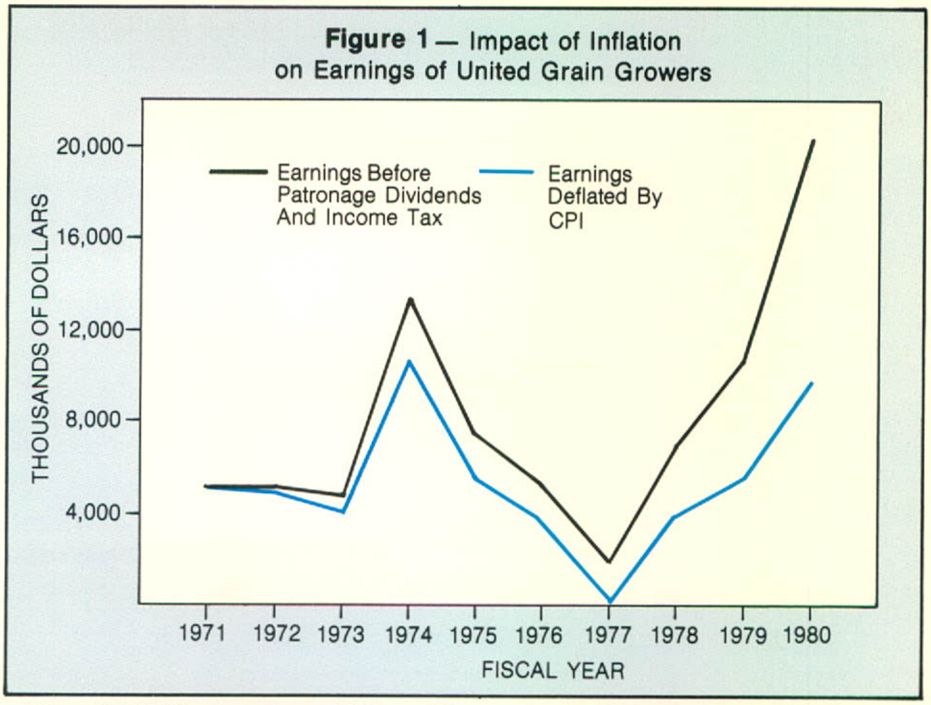
Actually, as Figure 1 indicates, United Grain Growers had considerably better financial results in constant dollar terms in the 1974 fiscal year when the comparable profit was $13.3 million*. More country elevator replacements and more tonnes of fertilizer could have been built or bought with the 1974 returns due to Canada's deflated dollar. Inflation is a governmental euphemism that masks deflation — devalued money — caused by the government printing more money than national productivity merits.

Interest costs reflect inflationary conditions and they continue to be the major burden to your company's growth and simple preservation of its present situation. This past year, they climbed until the early part of April, when the prime rate was 17.5 per cent, before trending downward to the current rate of less than 13 per cent.

This past fiscal year, the gross interest costs of United Grain Growers increased 50 per cent to $26 million. This is an extremely heavy burden on a company in an industry that traditionally depends on borrowed funds for operating needs. If interest rates continue relatively high, interest costs must be controlled by keeping strict controls on inventory levels and accounts receivable. Another safeguard is to maintain a large working capital in order to reduce the level of borrowed funds.

Because of the high interest cost of long-term debt, it is preferable that capital expenditures of your company be generated from earnings. Therefore projects of a capital nature should be of high priority and provide a reasonable return on investment.

In the current year, your company is facing a situation whereby country and terminal grain handlings may be down because of a depleted inventory of grains. The outlook for farm supply sales has improved with the prospect of better grain prices.




**When 1979-80 fiscal earnings of $20.3 million are "deflated" by the consumer price index, 1973-74 earnings of $13.3 million are higher than those of 1979-80. The consumer price index is a measure of the effect of inflation on the purchasing power of the dollar. The CPI expresses the cost of purchasing a fixed "basket of goods and services" in the base year, 1971.**

**Western Canadian farmers produced** less tonnes of grains and oilseeds in 1979 than the year before — 31.3, compared to a near-record 37.6 million tonnes in 1978.

An encouraging aspect of the 1979-80 crop year was the best export movement in history. Total exports of Canadian grains and oilseeds were 22.3 million tonnes, up 6 per cent from the previous high exported during the 1972-73 crop year. Rapeseed exports of 1.74 million tonnes established the only individual record in the crop year. With the exception of flaxseed, all grains exceeded last crop year's movement.

Wheat exports of 13.3 million tonnes represent a 21 per cent increase from the previous year when 10.9 million tonnes were exported. Exports of durum wheat totalled 1.9 million tonnes. This was only 1 per cent less than the record established during the 1977-78 year. Oat clearances of 101,000 tonnes marked a substantial increase from the previous year's exports of only 13,000 tonnes.

Barley exports of 3.8 million tonnes were 8 per cent more than the previous year and were the largest since the 1975-76 crop year when 4.2 million tonnes were exported.

Exports of rye were 397,000 tonnes, up from 154,000 tonnes cleared during the 1978-79 year.

Flaxseed exports of 449,000 tonnes were down from the 494,000 tonnes cleared the previous year.

Rapeseed clearances of 1.74 million tonnes surpassed last crop year's record movement of 1.72 million tonnes.

Farmers delivered a record total of 28.1 million tonnes of the major grains and oilseeds during 1979-80. This represented a slight increase from the previous record of 28 million tonnes established during 1977-78.

Deliveries of individual grains, in tonnes, with the previous year's figure in brackets, were as follows: red spring wheat 16.7 (13.2), durum wheat 1.9 (1.5), oats .29 (.36), barley 5.3 (5.4), rye .43 (.25), flaxseed .63 (.43), rapeseed 2.8 (2.9).

**Income of Prairie farmers kept** ahead of inflation in 1979. The near record crop produced in 1978 and improved grain and cattle prices in 1979 led to an increase in cash receipts for the calendar year of 20 per cent over the year previous.

All farm operating costs experienced the usual inflationary increases, and record-high interest rates led to a major rise in the cost of debt servicing. The overall rise in operating and depreciation costs, however, was below the increase in gross income. This left farmers with an increase in net income of about 35 per cent over 1978. When adjusted for inflation, however, the increase was about 17 per cent higher than the 1978 deflated income.

Early estimates by United Grain Growers for 1980 indicate realized net income of Prairie farmers will rise from $2.290 billion in 1979 to $2.537 billion this calendar year. On a deflated dollar basis, however, there is little differ-

Table 1 — Farm Net Income for the Prairie Provinces (1969-1980)
('000' of dollars)

| Year | A Cash receipts | B Income in kind | C Supplementary 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) |
|---|---|---|---|---|---|---|---|---|
| 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 | 5,859,777 | 76,012 | 0 | 5,935,789 | 4,237,811 | 1,697,978 | 175.2 | 969,165 |
| 1979 | 7,029,062 | 86,820 | 0 | 7,115,882 | 4,825,227 | 2,290,655 | 191.2 | 1,198,041 |
| 1980* | 7,850,000 | 312,000 | 0 | 8,162,000 | 5,615,000 | 2,547,000 | 210.0 | 1,212,857 |

***1980 incomes and expenses are estimates based on several criteria. In general, compared to 1979, more wheat and barley was delivered on the Prairies for a higher price. Some of the volume came out of on-farm inventory. Cattle prices were steady. While more hogs were sold, profits were lower, resulting in a slight increase in net income. Higher final payments also raised the total income.**

**COLUMN A: Total cash receipts 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.**

**COLUMN B: Income in kind includes the imputed value of goods produced and consumed on the farm and the inputed rent of the farmhouse.**

**COLUMN C: Supplementary payments include any additional payments to farmers by the government.**

**COLUMN D: Realized gross income is the total of the first three columns.**

**COLUMN E: Operating and depreciation charges include farm business costs incurred during the year regardless of whether they are paid for in cash or accumulated as new debt. See Table 2 for a detailed breakdown.**

**COLUMN F: Realized net income is the difference between realized gross income and operating and depreciation expenses. This is the amount of money farmers have available for personal taxes, living expenses and new investment.**

**COLUMN G: The Consumer Price Index is a measure of the effect of inflation on the purchasing power of the dollar. The CPI expresses the cost of purchasing a fixed "basket" of goods in a given year as a percentage of the cost of purchasing the same "basket" of goods in the base year (in this case 1971).**

**COLUMN H: The deflated net income is the realized net income divided by the consumer price index. It gives the purchasing power of each year's income in terms of 1971 dollars.**

**Source: Statistics Canada, *FARM NET INCOME HANDBOOK, 1980; CONSUMER PRICE INDEX, 62-001*. Figures are totals for Manitoba, Saskatchewan and Alberta.**

ence between 1980 and 1979 (Table 1). Grain farmers took advantage of higher prices and large quotas at the end of this past crop year by increasing deliveries of wheat and rapeseed. Drought conditions forced some cattlemen to cull part of their herds. On the expense side, interest rates have fallen from their peak in the spring of 1980. Incomes are expected to be down in the 1981 calendar year, despite the prospects for high grain prices since the inventory of grain in Prairie farmers' bins is well down from a year ago

Table 1 gives an historical perspective on farm incomes in the Prairies. Of particular interest are the last three columns where realized net income is divided by the Consumer Price Index to arrive at the deflated net income.

For example, the 1979 realized net income of $2.29 billion is worth about $1.198 billion in 1971 dollars. This means that it has less real buying power than the realized net income of $1.45 billion in 1973.

A glance at Table 1 shows farm income is characterized mainly by fluctuations. In 1968, farm income was declining from its peak in 1966. It reached a low in 1970 and then began to increase sharply until it reached a new peak in 1975. It then fell sharply in 1976 and 1977, but recovered in 1978 and 1979.

The year 1969 was an unfavourable one for grain farmers. A worldwide glut

**Table 2 — Operating Expenses and Depreciation Charges for the Prairie Provinces (1969-1979)**
**('000' of dollars)**

| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Taxes[1] | 66,890 | 66,810 | 67,979 | 65,025 | 63,066 | 65,133 | 76,900 | 88,614 | 95,480 | 103,407 | 107,607 |
| Gross farm rent[2] | 85,821 | 71,242 | 83,600 | 89,182 | 159,749 | 158,179 | 187,738 | 212,728 | 226,906 | 271,191 | 289,570 |
| Wages to farm labour | 84,294 | 83,783 | 86,388 | 92,318 | 112,298 | 134,136 | 163,328 | 175,460 | 188,154 | 198,876 | 212,598 |
| Interest on debt[3] | 169,447 | 133,701 | 132,943 | 158,219 | 170,048 | 243,555 | 274,357 | 349,037 | 368,918 | 466,973 | 689,765 |
| Total machinery expenses | 302,245 | 309,397 | 339,513 | 375,337 | 439,870 | 539,630 | 598,831 | 668,925 | 726,874 | 802,825 | 826,691 |
| Petroleum products[4] | 149,010 | 150,200 | 156,273 | 164,873 | 182,174 | 216,741 | 239,072 | 289,611 | 332,006 | 370,734 | 387,913 |
| Repairs and others[5] | 153,415 | 159,197 | 183,240 | 210,464 | 257,696 | 322,889 | 359,759 | 379,314 | 394,868 | 432,091 | 438,778 |
| Fertilizer and lime | 57,466 | 40,901 | 57,338 | 66,820 | 91,435 | 135,476 | 215,798 | 229,020 | 249,831 | 345,329 | 398,204 |
| Other crop expenses[6] | 56,437 | 55,385 | 59,239 | 68,878 | 85,810 | 127,700 | 157,482 | 174,300 | 198,477 | 264,251 | 311,122 |
| Feed[7] | 81,041 | 83,727 | 92,190 | 106,814 | 168,611 | 239,535 | 231,797 | 249,646 | 260,865 | 243,078 | 283,673 |
| Other livestock expenses[8] | 16,258 | 17,667 | 40,572 | 60,136 | 69,772 | 84,423 | 78,403 | 94,960 | 109,948 | 172,309 | 234,301 |
| Repairs to buildings | 29,547 | 25,813 | 30,585 | 38,319 | 48,013 | 63,941 | 74,609 | 87,763 | 73,445 | 79,717 | 89,521 |
| Electricity and telephone | 45,274 | 48,405 | 51,813 | 55,237 | 59,506 | 63,841 | 70,617 | 80,268 | 91,940 | 102,496 | 108,864 |
| Miscellaneous | 61,083 | 64,279 | 92,850 | 107,197 | 117,329 | 135,235 | 133,818 | 212,410 | 203,940 | 217,418 | 166,517 |
| Total operating expenses | 1,052,983 | 1,000,749 | 1,135,010 | 1,283,482 | 1,585,687 | 1,990,784 | 2,263,758 | 2,623,131 | 2,794,778 | 3,267,870 | 3,718,433 |
| Depreciation on buildings[9] | 33,648 | 32,583 | 31,783 | 34,685 | 42,076 | 54,426 | 69,084 | 81,502 | 84,450 | 92,627 | 117,750 |
| Depreciation on machinery[9] | 285,622 | 284,166 | 273,940 | 285,943 | 313,720 | 409,965 | 561,178 | 700,054 | 729,897 | 877,674 | 989,584 |
| Total operating and deprec. | 1,372,213 | 1,317,498 | 1,440,733 | 1,604,110 | 1,941,483 | 2,445,175 | 2,894,020 | 3,404,687 | 3,609,125 | 4,237,811 | 4,825,227 |

**[1]Property taxes on owned land and buildings. [2]Cash rent and crop shares.**

**[3]Includes mortgage payments on owned land and buildings together with interest payments on all other farm business debt.**

**[4]Includes gasoline, diesel fuel, and lubricants. [5]Repairs, tires, anti-freeze, licences, insurance, etc.**

**[6]Pesticides, containers, seed, twine, irrigation, etc. [7]Purchased through commercial channels only.**

**[8]Breed association fees, artificial insemination, veterinary fees, interprovincial purchases of feeder cattle and weanling pigs.**

**[9]The stock of machinery and buildings on farms is re-evaluated each year at current prices. Depreciation is calculated at a rate of 10 per cent per year for machinery, 3.5 per cent per year for service buildings, and 2 per cent per year for the business portion of the farmhouse.**

**Source: Statistics Canada, *FARM NET INCOME REFERENCE BOOK, 1980.***

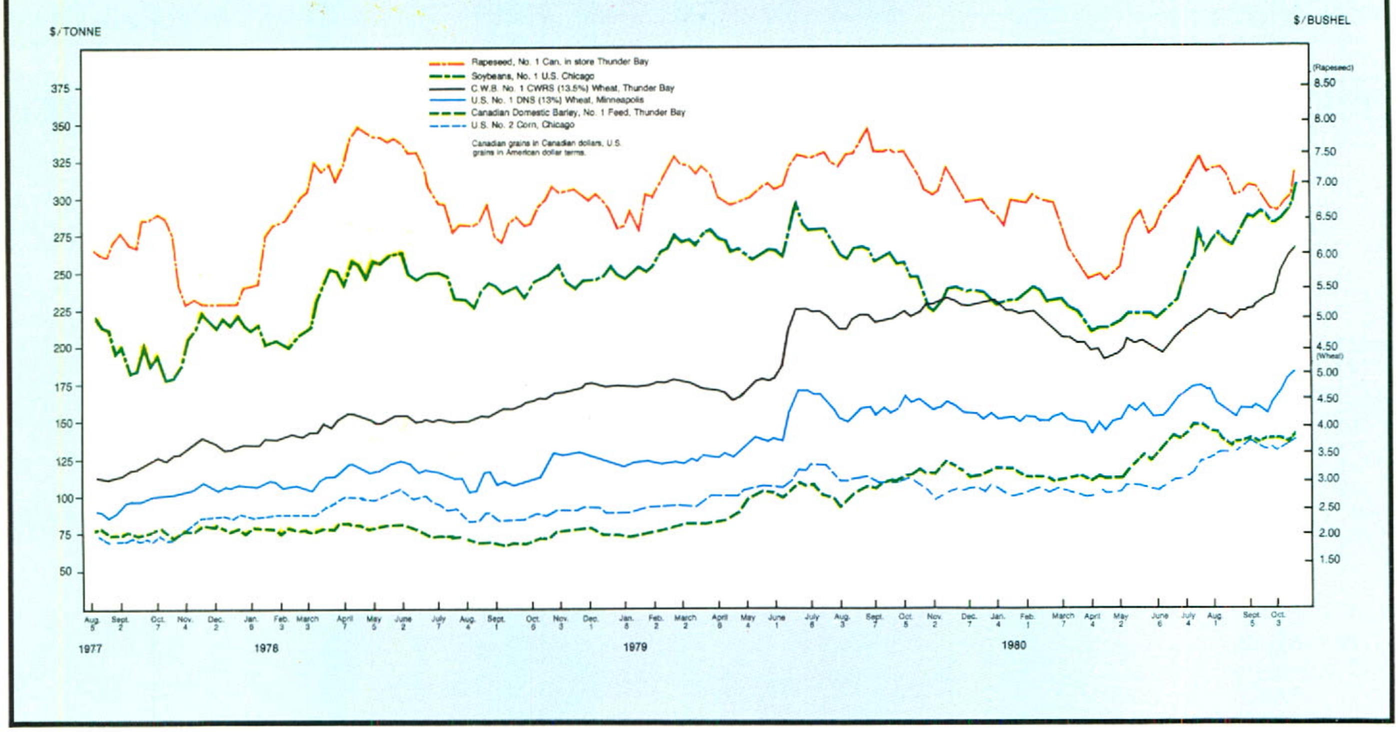
of foodstuffs led to falling prices, declining exports, and large carryovers. Cash receipts and net income both declined. Grain producers relied heavily on advance payments.

The year 1970 was a memorable but confusing year. Cash receipts from wheat sales increased somewhat due to rising prices. In February the government introduced the Lower Inventories for Tomorrow (LIFT) program that paid farmers $6 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 Canadian 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 1979 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

**FIGURE 2 — Average Weekly North American Grain & Oilseed Prices**




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 depressed prices in the 1976-77 crop year. Meanwhile rising input prices continued to push up operating costs. As a result farm net income dropped in 1976 and 1977.

In 1978, higher prices and increased marketings for grain led to a modest increase in farm net incomes.

**Increasing input prices have been** a major concern to farmers. Table 2 attempts to show how rising prices and interest rates have affected production costs.

Operating expenses reached a low point in 1970 when the LIFT program led to a cutback in production. Since then, they have increased at between 13 and 16 per cent per year except for the high-inflation years of 1973 and 1974 when they increased by 23.5 and 25.9 per cent, respectively. Special factors have affected certain expense items.

Gross farm rents have followed the trend of land prices. They fluctuated from 1968 to 1972 and rose steeply from 1973 on.

Interest costs have been influenced by both the size of farm debt and the rate of interest. From 1969 to 1971 interest payments dropped due to a decline in borrowing and a falling rate of interest. They began to rise in 1972 and since then the growing volume of farm debt has pushed them steadily upward. Changes in the interest rate have affected the rate of increase. Dramatic increases in interest rates in 1974 and 1979 caused interest payments to grow by over 40 per cent in those years.

Expenditures on fertilizer dropped in 1969 and 1970 due to a reduction in seeded acreage. Not until 1973 did they again reach their 1968 level. Since then they have risen steeply due to a combination of rising prices and increased use.

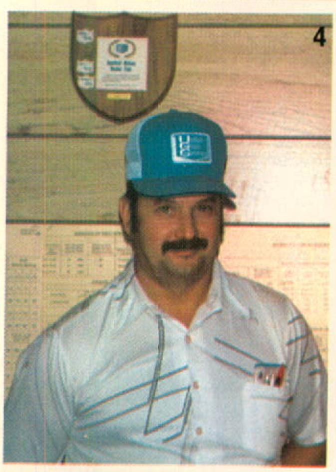
The figure for expenditures on petroleum products indicates that farmers have coped with fuel costs quite well. The percentage increase in expenditures for fuel has not been out of line with the increase in total operating expenses. Farmers have adjusted to rising fuel prices by switching to larger machines and more energy-efficient tillage practices. The trend to larger machinery can be seen in the increases in expenditures on repairs and depreciation costs for machinery. Rising energy costs will continue to be a major challenge to farmers as Canadian oil prices move towards world levels.

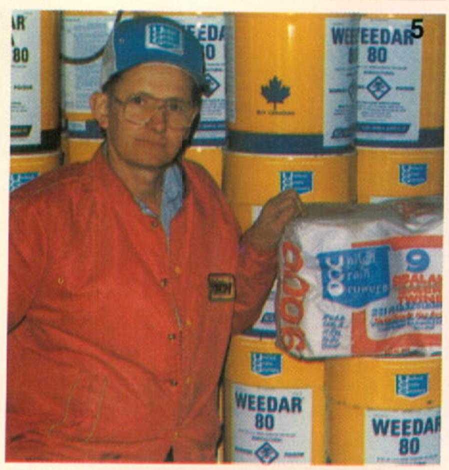
Rising prices for farm commodities have cushioned the effect of rising production costs for the past three years. But grain prices are cyclical and once input prices go up they tend to stay up. Prairie farmers will have to pay even more careful attention to their management and production practices to survive the effects of higher costs in the future.

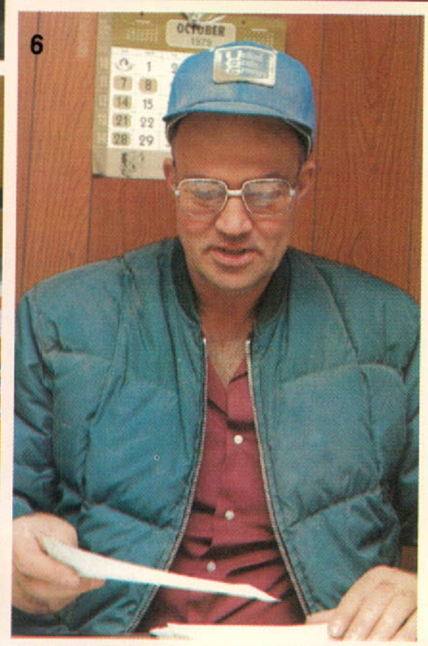
*Six of the elevator managers who will receive Gold Awards for handling over 25,000 tonnes of grain last year and two of the managers who had record farm supply sales.*

*(1) Ray Mullin, Belmont, Manitoba; (2) Garry May, Landis, Saskatchewan; (3) Ray Pickering, Birch Hills, Saskatchewan; (4) Ron Gawryliuk, Brock, Saskatchewan; (5) Ben Bergman, Plum Coulee, Manitoba; (6) Bill Rawleigh, Fort Macleod, Alberta; (7) Bill Reimer, Ste. Anne, Manitoba; (8) Harold Wagner, Olds, Alberta.*





# OPERATIONS REVIEW

## Elevator Operations

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

Elevators are essential to 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, and feed grains, 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 76 points in Manitoba, 158 in Saskatchewan, 144 in Alberta and 3 in British Columbia during the 1980 fiscal year.

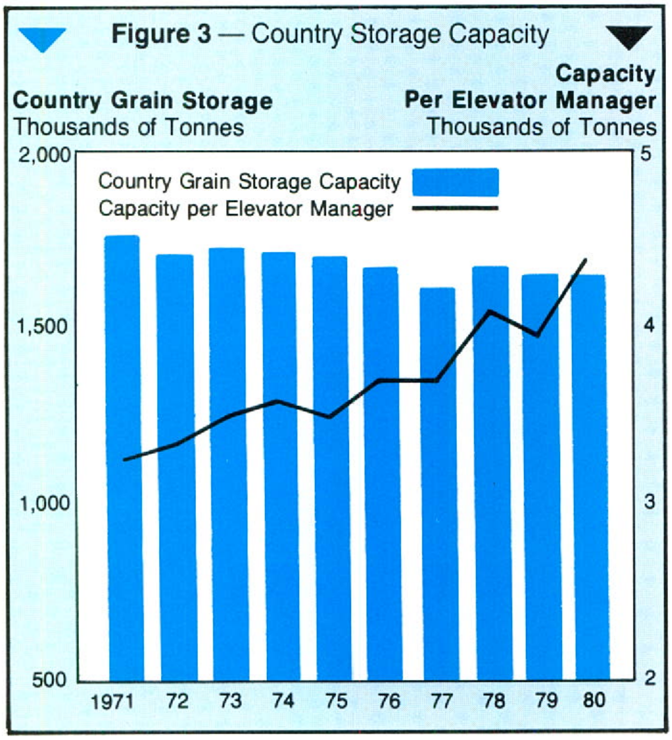
The total capacity licensed by the Canadian Grain Commission is 1.55 million tonnes (wheat equivalent 60 million bushels) at the beginning of the year.

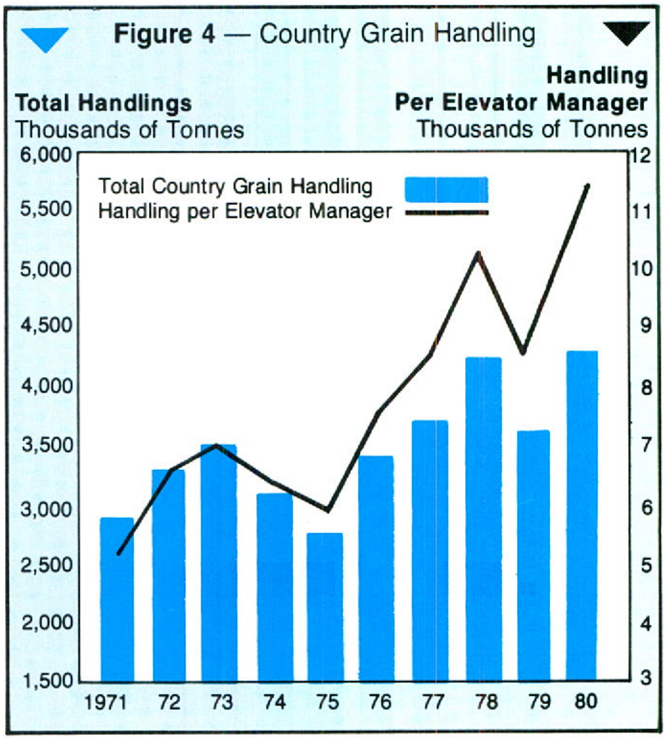
Capital expenditures in country operations amounted to $7.4 million this past year compared to $5.4 million in the year previous. Major expenditures on projects were: elevator replacements $2.6 million; major renovations $0.5 million; annexes and bins $1.0 million; farm supply facilities $1.4 million; dust collection equipment $1.2 million; miscellaneous, including dwellings, $0.7 million.

New elevators were completed at Codette, Saskatchewan, and at St. Paul and Olds, Alberta. New elevators are presently under construction at Morden, Manitoba, Hussar, Alberta and Simpson, Saskatchewan. Additional storage was added in Manitoba at Rivers, in Saskatchewan at Assiniboia and Marengo, and in Alberta at Barrhead and Grande Prairie. Major renovations to elevators, driveways and scales were completed at Nipawin, Saskatchewan, and Grassy Lake, Wimborne, Drumheller and Lomond, Alberta.

During the past year, 17 elevator stations were vacated under rationalization-exchange programs with other

*Other country structures include over 1,000 annexes, 16 feed mills and a pet food plant, 18 anhydrous ammonia plants, 13 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.*



companies or through outright closures. An elevator fire at one other location resulted in withdrawal from that market as rebuilding could not be justified.

Construction costs continued to increase, thereby restricting the number of projects that could be undertaken. Increased allocation to $7.4 million has allowed some added improvements, but more funds are needed to meet needs at *all* major locations.

The cost of a new composite elevator with 3,500 tonnes (140,000 bushels) capacity is $700,000. A major overhaul of an existing elevator, which includes a new driveway, scale and office, costs as much as $250,000. If your company were to locate on a new market the costs would exceed $1,000,000 for grain and farm supply facilities.

In the 1979-80 crop year, United Grain Growers handled a record 4.2 million tonnes of grain, well above the 3.6 million of the previous year. The earnings from grain operations improved substantially.

The main factor contributing to the improved earnings was an increase of $8.5 million from grain handling, largely accounted for by higher levels of grain handlings and shipments together with improved margins earned on domestic cereals and oilseeds. The additional revenue gained from grain handlings was partially offset by increased expenses.

**Output of principal grains last** year amounted to 31.3 million tonnes. This 1979 production figure was well down from the 37.6 million tonnes produced in 1978. Wheat was down 5.8 million tonnes from a level of 20.6 million in 1978. Oat production was down 700,000 tonnes and output of barley was down 2 million from the previous year's 9.7 million tonnes. Rye was down 100,000 tonnes but flax increased almost 300,000 tonnes to a level of 836,000 tonnes. Rapeseed production was almost identical to the previous year at a level of 3.4 million tonnes.

The 1979 crop added to the large carryover inventory from the previous year provided the basis for potential record grain handlings through the country elevator system.

Producer deliveries were heavy throughout the fall resulting in record receipts through the first six months of the crop year. The early spring and dry conditions in many regions resulted in a prolonged seeding period. Deliveries did not pick up significantly until early June, but with large quotas and improved transportation a record amount of grain was handled through the country elevator system.

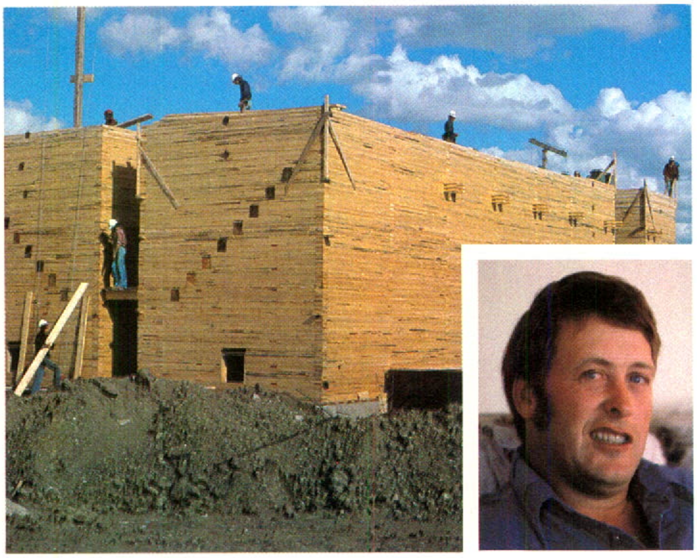
Congestion at many locations limited the amount that could be handled at these stations. Although car supply improved dramatically on CN Blocks, difficulties were encountered in accepting grain to fill quotas on CP Blocks due to shortage of cars and other associated problems.

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

| | 1976-77 | 1977-78 | 1978-79 | 1979-80 |
|---|---|---|---|---|
| Millions of Tonnes Handled | 3.73 | 4.17 | 3.61 | 4.24 |
| Elevator Costs per Tonne Handled | | | | |
| DIRECT OPERATING EXPENSES | | | | |
| Salaries — including assistant managers, casual help, overtime, bonuses and benefits | $2.30 | $2.18 | $2.68 | $2.47 |
| Moving, travel, meetings | .04 | .03 | .04 | .04 |
| Repairs | .63 | .39 | .64 | .65 |
| Annex unloading | .06 | .04 | .06 | .05 |
| Insurance (grain and merchandise) | .15 | .06 | .13 | .15 |
| Heat, power and water | .12 | .12 | .16 | .14 |
| Postage, stationery and supplies | .02 | .02 | .03 | .04 |
| Phone, wire, telex | .04 | .04 | .05 | .04 |
| Exchange | .05 | .05 | .05 | .04 |
| Interest on current operating funds | 1.17 | 1.03 | 2.40 | 3.20 |
| Miscellaneous | .04 | .06 | .06 | .06 |
| | 4.62 | 4.02 | 6.30 | 6.88 |
| | 58% | 58% | 63% | 67% |
| DIRECT FIXED EXPENSES | | | | |
| Property rentals | .04 | .05 | .06 | .05 |
| Building insurance | .13 | .06 | .19 | .18 |
| Taxes | .44 | .41 | .44 | .54 |
| Interest on capital investment | .22 | .26 | .46 | .28 |
| Depreciation | .40 | .40 | .48 | .47 |
| | 1.23 | 1.18 | 1.63 | 1.52 |
| | 16% | 17% | 16% | 15% |
| Administration and overhead | 2.08 | 1.75 | 2.06 | 1.83 |
| | 26% | 25% | 21% | 18% |
| TOTAL COST | $7.93 | $6.95 | $9.99 | $10.23 |
| | 100% | 100% | 100% | 100% |

**Total grain handlings, bushels per year and cents per bushel in brackets: 1976-77 — 151M (19.44¢); 1977-78 — 169M (17.01¢); 1978-79 — 147M (24.47¢); 1979-80 — 173M (25.06¢)*

*New elevators and major renovations were underway or completed at a number of points. Some of the projects and the chairman of the local board (inset) are shown on this and the following page.*



*New elevator at Hussar, Alberta. Ben Armstrong.*


*Steel bin annex added at Petrel Siding, Manitoba. A. W. Ruckle.*


*New driveway, scale and office added at Rivers, Manitoba. Leslie Dyer.*

United Grain Growers handled 16.11 per cent of Prairie deliveries to country elevators in the 1979-80 crop year. Your company intends to increase its market penetration in both grain handling and farm supply sales. This will be achieved by major improvement in facilities and services. Large capital investments will be required to construct modern elevators, renovate existing plants, and provide improved storage for both grain and farm supplies.

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

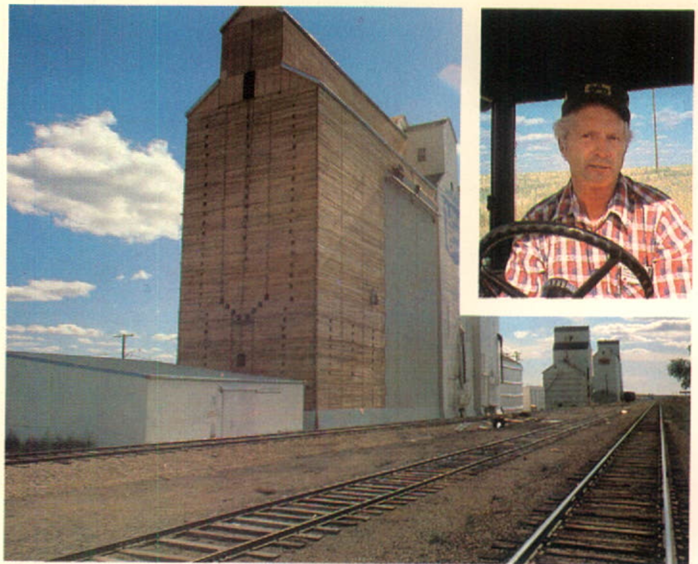
Table 3 shows the breakdown of costs of handling a tonne of grain through your country elevators during 1979-80 when 4.24 million tonnes were handled. Costs this past year amounted to $10.23 per tonne. The cost in the year previous, when 3.61 million tonnes were handled, was $9.99 per tonne, It should be noted that $2.03 of the $2.30 difference in cost of handling a tonne of grain between 1976-77 and 1979-80 is due to cost of interest. Taxes also have increased markedly.

As noted, United Grain Growers intends to increase its market penetration. The directors will share with members their updated plans on how UGG can handle 25 per cent more grain and sell 50 per cent more fertilizer and chemicals in western Canada. Their intention is to achieve this within the next ten years.

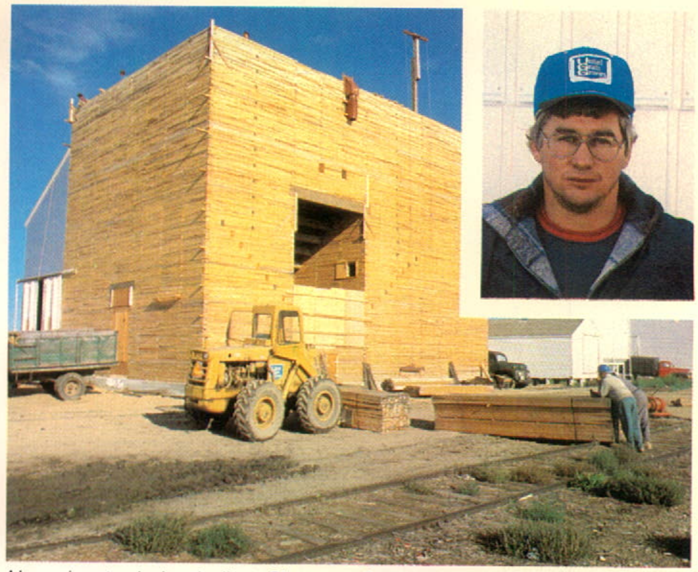
During this past year, United Grain Growers operated 381 manager units. Increasing operating costs will probably result in an additional 30-40 units being closed over the next few years. At most of these locations to be closed, volumes do not justify the necessary major investment required to improve facilities to meet present needs.

It is your company's intention to eventually construct new elevators at major markets where it is not now represented. This program will involve at least one location each year while still placing additional emphasis on improvements to elevator and farm supply facilities at stations where UGG is now located.

The medium-term plan is moving to-

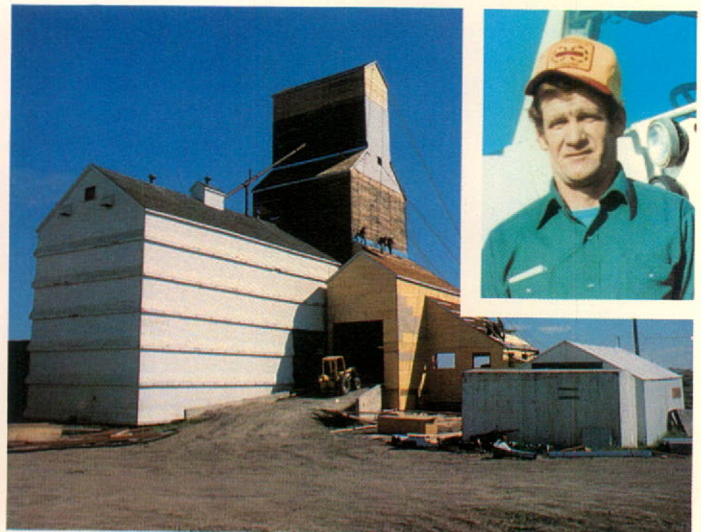


Annex being completed at Marengo, Saskatchewan. Stewart Coutts.

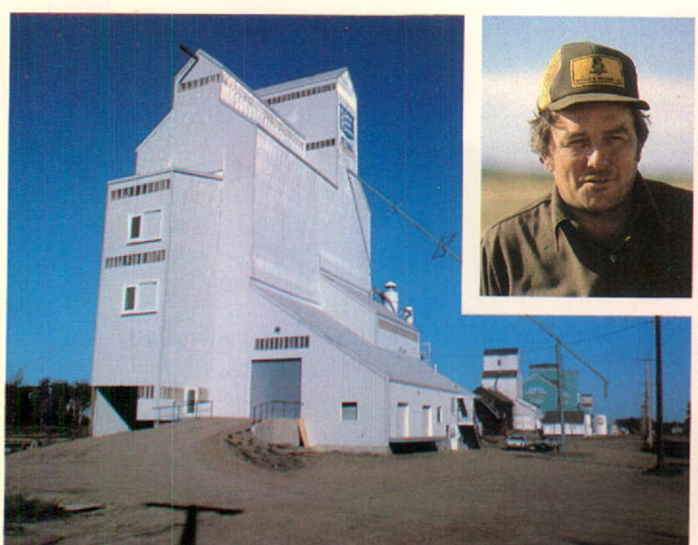


New elevator being built at Simpson, Saskatchewan. Gary Vanthuyne.

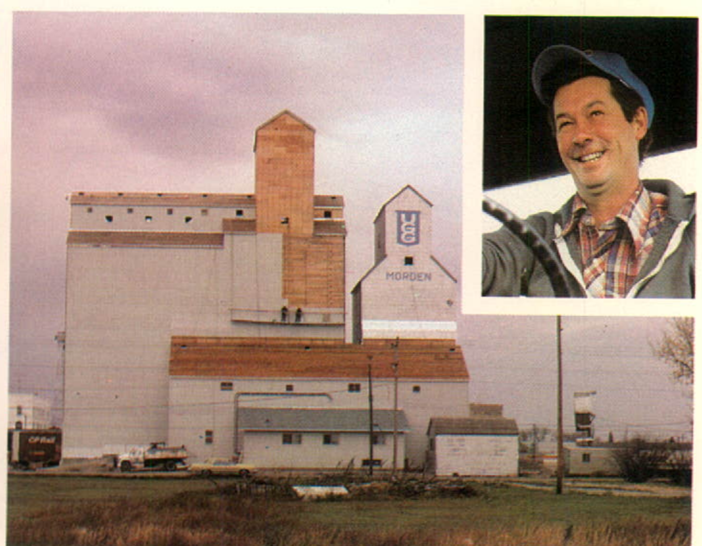

New annex, scale and office completed at Assiniboia, Saskatchewan. A. J. Meagher.



New annex, scale and office are being added at Markinch, Saskatchewan. L. F. Hehn.



Completed new elevator at St. Paul, Alberta. Bernard O'Neill.




New elevator at Morden, Manitoba will include older elevator which will handle special crops. P. D. Livingstone.

ward a system of about 350 operating units with *average* handlings per unit of over 15,000 tonnes per year, ranging from 11,000 tonnes to close to 50,000 tonnes handling. Average annual farm supply sales are expected to exceed $175,000 per unt.

Earnings will govern the amount of money available each year for upgrading your elevator system. These are the medium-term plans of your company.

*Elevator Replacements.* New elevators are required at a number of permanent locations where UGG is now represented. In some cases these can be built alongside existing facilities, but in others a new site is needed. Cost of these units will vary from $500,000 to $800,000 depending on the type and capacity needed. A program to build three or four of these facilities a year requires a capital allocation of $2 to $3 million annually. Actual replacement needs, however, could be in the order of five to six elevators a year.

*Invasion Points.* In order to expand services to more producers, several large-volume stations have been identified where additional grain and farm supply facilities would be desirable. Invasion of these markets would contribute greatly to increasing the market penetration of grain handlings and farm supply sales. An investment of more than $1 million is required at each of these locations to provide necessary facilities.

*Storage Capacity.* More working capacity is needed to improve operations at many permanent locations. Obsolete storage space at some of these stations has to be replaced to improve efficiency. The type and cost of the added capacity will vary. In some high-volume stations a cribbed annex with a capacity of 2,800 tonnes, equipped with a separate elevating leg, may be needed. This type of annex costs more than $500,000. A similar capacity, in steel bins with drag conveyors, can be constructed for about half that cost. A continuing program involving annual expenditures of $1.5 million would permit building increased capacity at as many as six locations per year.

*Major Elevator Renovations.* In many cases, your company has sound elevators on satisfactory sites. Renovation of these elevators, which includes replacement of driveway, scale and office, will better accommodate deliveries. Costs of these improvements will vary from $100,000 to $250,000 depending on the extent of renovation. Upgrading of receiving scales will be needed at about 100 locations over the next 10 years.

*Maintenance & Repair.* Further to the $7.4 million spent on capital construction in the 1980 fiscal year, the company spent an additional $2.7 million on maintenance and repair. As the individual units handle greater volumes of grain annually, the wear and tear on equipment, such as scales, cleaners, legs, bins and other sundries, requires significantly more expenditures. To improve the exterior appearance of the elevator facilities and protect the siding and cribbing, 39 plants were painted during the year at an average cost of $8,000 per unit, and this program will continue.

*Dust Equipment.* The company is continuing its aggressive program of dust collection installations in country elevators. It is hoped to have all the long-term operating units equipped with a dust control system by the end of 1981. During the current year, $1.2 million was spent on dust control units. Since 1974, UGG has installed 229 dust control systems, bringing the total number of units equipped to 257. When the project is complete, close to $6 million will have been spent.

*Country Dwellings.* There are now reasonably good dwellings at most permanent locations. New dwellings of standard quality now cost more than $60,000. UGG is disposing of some houses where operations have been discontinued and these funds are being used to replace existing dwellings. A continuing program involving annual expenditure of $150,000, in addition to the amount recovered from sales, would satisfy the requirement for new or improved dwellings.

*Country Warehouses.* Most permanent locations have warehouses for storing bagged fertilizer, twine, seed and chemicals. Many are not adequate and reduce the manager's ability to expand sales. Cost per unit will vary from $15,000 to $25,000 depending on the size needed.

*Bulk Fertilizer Storage.* Although your company is expanding its program to provide hoppered bins for storage of bulk fertilizer, large bulk blending plants are being built at high-volume locations. Cost of these plants with necessary equipment is $150,000 resulting in $1 million a year being required to permit development of 6 to 7 locations annually.

*Anhydrous Ammonia.* The use of anhydrous ammonia on farms in western Canada has increased substantially in recent years. Lack of supplies has limited market growth. United Grain Growers presently distributes $NH_3$ through facilities at 18 locations and is prepared to expand this number as more product becomes available. Cost for development of an outlet is $150,000 for the necessary tanks and equipment.

In the current year, it is expected 15 low-volume elevators will be closed out or traded. Those closed or traded during this past year were Kelwood, Novra and Rorketon in Manitoba. Kelwood was closed as a result of rail line abandonment. Regina, Waseca, Eatonia, Mantario, Spalding, Aylsham, Main Centre and Gouldtown were traded in Saskatchewan. Regina, Main Centre and Gouldtown were closed as a result of abandonment. Stations traded in Alberta included Stavely, Forestburg, Hayter, Strome, and Waskatenau.

Elevators were lost by fire at High Prairie, Hussar, Wayne and Clairmont in Alberta. The plant at Clairmont was an unused facility and did not contain any grain. Volumes at Wayne did not warrant rebuilding at that location. The elevator at Hussar is being rebuilt and improved facilities at High Prairie are required.

### Farm Supplies Operations

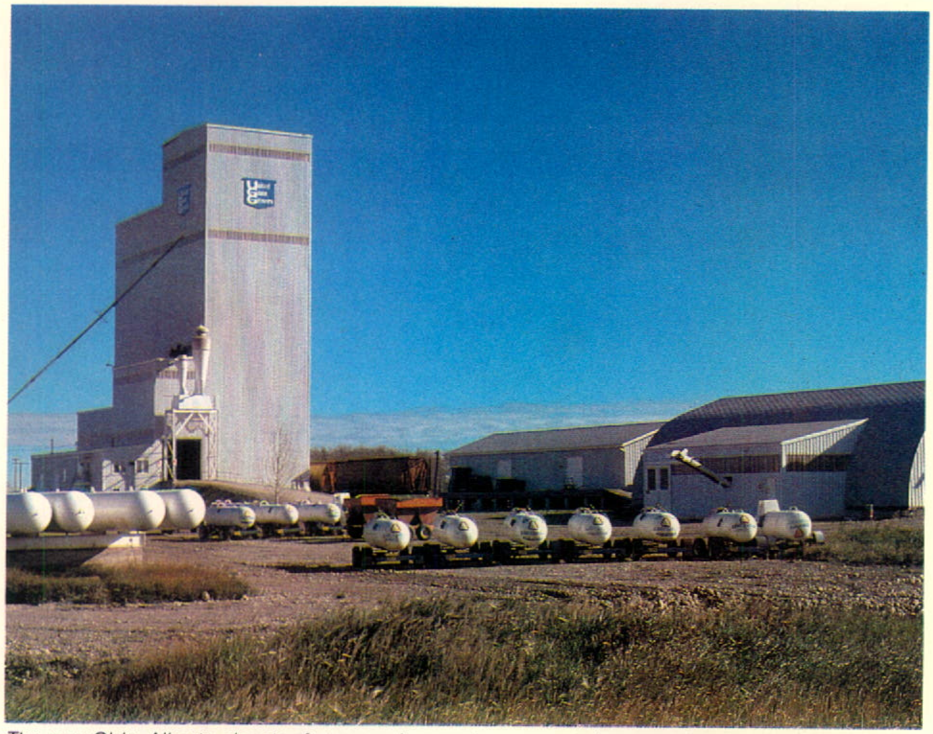
After posting record sales to the end of the third quarter, sales in the fourth quarter slackened and, as a result, dollar sales were only 3.7 per cent higher this past year than a year ago. It should be remembered, however, sales in the 1979 fiscal year were up 20 per cent over those of 1978.

Fertilizer and twine sales were up in 1980, but lower weed chemical and seed treatment sales, combined with lower margins, resulted in a 5.6 per cent drop in sales revenue from the previous year.

With the extreme drought conditions that prevailed across the Prairies in early spring, and which lasted through until early July in eastern Saskatchewan and Manitoba, the spring demand for fertilizer and pesticides slackened sharply. Most affected were sales of Carbyne, Mataven, 2,4-D, and some of the specialty herbicides such as Brominal M and Torch. Because of the reduced rapeseed acreage, sales of Treflan Liquid declined markedly.

*Fertilizer.* For the first time in a number of years, all grades of fertilizer were in good supply throughout the year. The normal spring rush didn't develop. There were adequate supplies and no transportation problems since seeding was stretched over an extended period as farmers waited for spring rains. The year ended with modest increases in sales in Manitoba and Saskatchewan.

The outlook for the current year is for some increase in prices for all kinds of fertilizer. Although all grades are in adequate supply at this time, there are indications that 46-0-0 (urea) may be short. Two major manufacturing facilities are experiencing extended shutdowns for repairs. This situation could be seriously aggravated next spring if fall and winter sales are slow as some of the production designated for western Canada could be sold elsewhere if plant stocks become unmanageable.



The new Olds, Alberta elevator-farm supply complex can supply a complete line of farm supplies including anhydrous ammonia, bulk blended fertilizer and all grades of granular fertilizer.

The planned bulk fertilizer plant expansion program for 1979-80 is now complete. New plants are operating at Olds, Huxley and Nampa in Alberta, at Rosthern and Elrose in Saskatchewan, and at Neepawa and Gladstone in Manitoba. A feed mill at Wilkie, Saskatchewan was converted into a bulk fertilizer facility with blending equipment. All of these plants together with facilities at Ste. Anne, Fannystelle, Petrel and Deloraine in Manitoba and at Dawson Creek in B.C. will be equipped to apply Avadex BW to 46-0-0 (urea) fertilizer. Similar bulk blending plants are planned for Reston, Birch River, Belmont and Gilbert Plains in Manitoba, Carrot River, Yellow Grass, Porcupine Plain, Macklin, and Congress in Saskatchewan, and Bentley, Fort Macleod, Manning and St. Paul in Alberta. A solution fertilizer facility will be installed at Brunkild, Manitoba this fall. A number of smooth-wall hoppered steel bins were erected this past year with more installations planned for the current crop year.

*Herbicides.* Sales of Carbyne were particularly disappointing this spring as germination was very spotty due to the dry conditions. Avadex sales held up well but Treflan Liquid sales were down significantly with the large cutback in rapeseed acreage.

Sales of other post-emergent chemicals suffered severely except for Avenge and Hoe-Grass. The increase in Avenge sales with the large barley acreage in Alberta offset the decline in Manitoba and Saskatchewan. Hoe-Grass sales, even in a year plagued with adverse cropping conditions, increased substantially. The outlook is for a good supply of all chemicals but prices are expected to increase anywhere from 7 to 18 per cent.

*Twine.* Although hay crops were poor across the Prairies and a real disaster in much of Saskatchewan and Manitoba, sales held up well as a lot of twine was purchased early in the year in anticipation of higher prices. Both the fibrilated plastic and sisal twines were in good supply. Decreases in fibrilated twine prices are expected in the new year.

*Other Farm Supplies.* Sales of seed treatments with the exception of those used on rapeseed remained steady, as did sales of tarpaulins, paint and other miscellaneous items. Each year there is an increasing demand for grain moisture meters and although UGG has been purchasing more of these units each year we again experienced a supply problem because of the wet harvest conditions.

Although the first production models of the Gjesdal Five-in-One Rotary Grain Cleaner from C.E.A. Simon-Day Limited arrived late in the season this past year, a number of units were sold this spring. With some minor modifications and adjustments, the units are performing up to expectation. Interest in this cleaner is very strong and the manufacturer has been having difficulty supplying enough units to keep up with demand.

## Seed Operations

Total seed sales handled by your company this past year were $16 million, an increase of 11 per cent over last year's record. However, the expenses — plant, office and direct, including administration and overhead — were up 13.5 per cent, leaving a net profit of $0.3 million, about half the previous year's level.

The margin of profit on key UGG items, such as creeping red fescue and rapeseed in Alberta, and rapeseed in Manitoba and Saskatchewan, was cut back by the adverse spring and drought when growers changed their seeding intentions dramatically. United Grain Growers carried a larger inventory than usual of seed rapeseed into the 1981 fiscal year. Due to the adverse fall in 1980, these inventories, as they are good merchandise, will probably increase in value and sell at a higher price this fiscal year.

Alberta seed operations had a most difficult year since the major commodity from a volume and dollar standpoint, is creeping red fescue. Prices to the grower early in the year were 60¢ per pound and markets did not reflect a worthwhile return on these dollars invested. The only saving factor was that, through efficient cleaning at the Edmonton plant and blending and marketing, no dockage losses were suffered.

Sales of creeping red fescue amounted to over $3 million. Alsike clover was a good handle reflecting improvement over the average for the last few years. Single cut red clover, because of the high field buying price last fall, was a risky inventory item, however, a small profit was realized.

Cereal grains, because of the good crop throughout Alberta, turned out to be a service-to-customer item, with sales figures down as well as gross profit. As mentioned earlier, rapeseed sales were disappointing with a larger-than-usual carryover compared to other years and a very small profit was realized.

In looking at the current year in Alberta, the creeping red fescue crop is expected to be only two-thirds of 1979, with practically no carryover in the growers' hands. UGG's expected handle will be 1½ to 2 million pounds compared to 3 million a year ago. The price to growers is $1.00 per kg for Canada 1, final price to be settled November 1st, and the price of certified is $1.15 per kg.

In Saskatchewan, spring came early with extreme hot and dry conditions and farmers were forced to change their seeding plans. Although UGG enjoyed good sales of red spring wheat, durum and barley, the intended acreage of all oilseed crops was drastically reduced because the top soil was so dry. The planting of forage seed was reduced, although the increased planting of sweet clovers in the last few years has become very evident in Saskatchewan.

In the latter part of June and early July, cattlemen scrambled for feed. This resulted in large acreages being seeded to hay and millets.

UGG has undertaken a multiplication of Elrose barley in Saskatchewan and it is possible your company will have 40,000 bushels of certified Elrose barley — two-row — this winter. On the first 290 acres harvested, the yield has been around 60 bushels per acre with a test weight of 53 pounds. This variety is susceptible to admixtures of 6-row. There is still the question of whether or not The Canadian Wheat Board will be contracting Elrose barley this year.

The main profit centre in Manitoba and Saskatchewan operations has been yellow mustard which is cleaned at Dinsmore, Saskatchewan, Regina and Winnipeg. The contracted acreages of the 1979 seeding were sold with very little carryover and it was decided to increase 1980 contract acreage by one-third. However, the spring of 1980 did not lend itself to a large acreage expansion, and a considerable acreage was worked down due to drought, frost and flea beetles. Pounds of mustard sold in the 1980 fiscal year were about the same as the year previous — 12 million pounds.

Next to mustard, the largest contributor to the gross profit in Manitoba was seed wheat. This was composed of seed sales of red spring and durum as well as specialty sales of double recleaned selected amber durum to the puffers in eastern Canada. Barley and oat sales were good, but flax and rapeseed sales were disappointing.

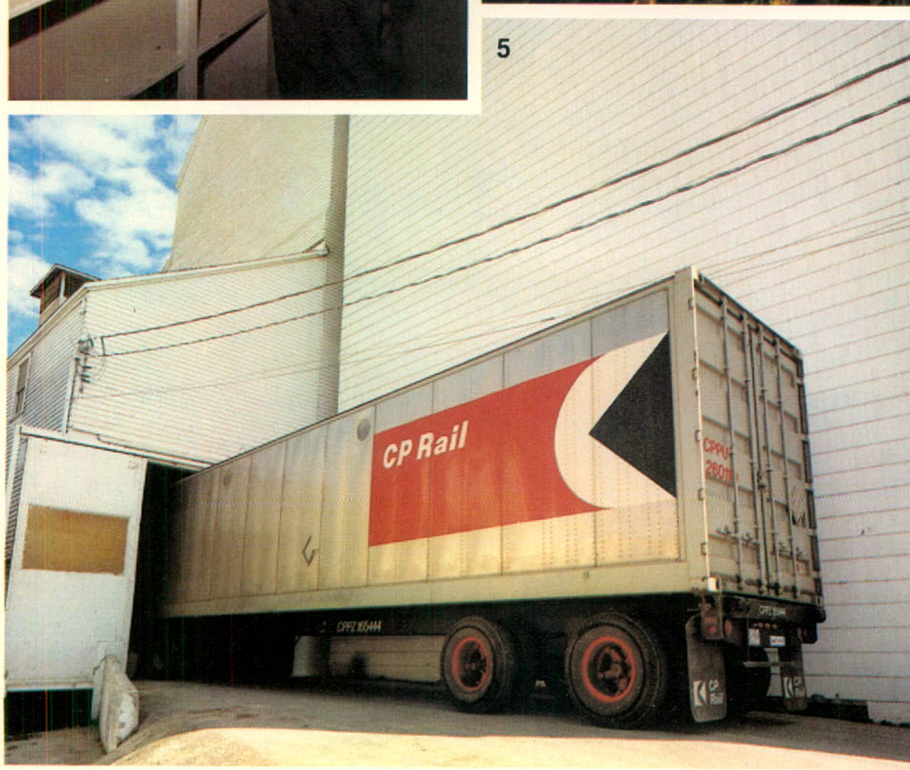
The dried food package department showed strength again this year. Items packaged and sold included popcorn, beans, pot and pearl barley, wild bird feed, and long and short grain rice. A new product UGG is packaging and selling is a bio-degradable litter box filler for cats called Kitten Klean. This is manufactured in the United States and UGG has exclusive rights in Canada. Kitten Klean is made from three natural farm ingredients.

Capital expenditures are not expected to be large in the current year. A dust control program is underway at Edmonton and United Grain Growers

*Lentils growing (1), Lentils being harvested (2), is one of the crops contracted by special crops operating unit. Other crops include Sunflowers (4) and Fababeans (6).*









*A new 70-tonne scale and automatic print-out (3) was installed at the Winnipeg, Manitoba seed plant to weigh and unload the largest trucks (5).*

intends to build a new seed shed at Dawson Creek.

In Saskatchewan, your company is still looking for a site for a mustard plant and improvements on the plant at Dinsmore have been made. Some funds have been spent on bulk bins.

In Manitoba, UGG has built a new office and scale house at Souris and is installing a new 70-tonne scale at Winnipeg. A major capital expenditure to build a plant and seed warehouse at Swan River is planned.

## Special Crops

As a result of the increasing interest in special crops among Prairie farmers and the success your company has had in penetrating that market, a special crops operating unit was created August 1, 1979.

In its first year, special crops enjoyed reasonably good profits and provided substantial earnings to country grain operations by way of elevation charges and terminal and marketing operations through elevation, storage and marketing grain.

The main crops contracted are sunflowers, lentils and fababeans. Buckwheat, corn and peas are handled on a non-contract basis. The contracting system generally works as follows: the interested farmer signs a UGG production contract at his local elevator, and arranges for seed suited to his soil type and general growing conditions.

As soon as a production contract is signed, the farmer then has the option of forward-pricing part of his production, in the case of sunflowers, since a futures market exists for the crop in the U.S. To date, lentils and fababeans are contracted on an initial and final payment system.

Field personnel help producers with initial seed selection and production problems that may be encountered with a new crop. Delivery of the crop is accepted as soon as possible after harvest, then it is cleaned, processed and moved into export position.

In the case of sunflowers, after delivery, a producer has several pricing options. He can elect to sell at the street price, or price his crop at any time up to July 31 of the following year. In the event he chooses to defer his pricing, he can take an interest-free cash advance.

The following provides a brief breakdown of the experience with different special crops for the past fiscal year.

● *Sunflowers* continued to be the largest volume crop handled, with most of this acreage in Manitoba. Over 80 per cent of UGG's customers took advantage of the interest-free cash advance option, and more than 30 per cent of UGG's total production was priced out at July 31, which was the high since early fall of 1979.

● *Lentil* acreage climbed dramatically in 1979 with about 60 per cent of UGG's acreage in Saskatchewan and 40 per cent in Manitoba. Yields averaged more than 700 pounds per acre. An initial payment of 18 cents per pound went to producers shortly after delivery in the fall of 1979, and an 8-cent final payment was paid in early 1980. An initial payment of 28 cents per pound is being paid on the 1980 crop.

● *Non-contract buckwheat* was purchased in substantial quantities this past fiscal year. It was mostly of the variety Mancan for export to Japan. Most of the buckwheat was cleaned to export specifications at country elevators — and this is why delivery is accepted only at those points with adequate cleaning facilities. The prices paid to producers ranged from $6.00 to $7.50 per bushel for Mancan, and $1 per bushel less for common.

● *Fababean* acreage was relatively small due mainly to inadequate planting seed supplies. UGG paid a 7-cent initial and 2-cent final payment for fababeans grading No. 3 or better.

● *No. 2 corn* represented a small percentage of the corn grown in Manitoba and, consequently, UGG handled relatively small quantities. Corn grading less than No. 3 CW is not exportable (due to the abundance of No. 2 American corn).

Future growth of special crops handled by your company will depend on expansion of the acreage of crops already handled, and developing programs and systems for handling new crops, such as confection sunflower seed and canary seed. As business develops, service personnel and specialized facilities to handle these crops will be developed.

## Terminal and Grain Marketing Operations

Most of the grain delivered by customers to your country elevators flows to domestic and export markets through your company's terminals at Vancouver and Thunder Bay. Small amounts are shipped to Churchill and Prince Rupert, and some is consigned to malting plants, mills and feedlots in the Prairie Provinces.

United Grain Growers' terminal at Vancouver has a capacity of 102,000 tonnes. At Thunder Bay, UGG has two terminals: Elevator A with a capacity of 231,000 tonnes and Elevator M with a capacity of 91,000 tonnes.

The grain handled by your terminals this past year amounted to 3.1 million tonnes compared to the previous year's total of 2.7 million. This is the second-best terminal handling in the history of United Grain Growers. The total profit from terminal operations this past year amounted to $5.6 million, well up from the $4.1 million in the previous year.

The improved earnings were a result of higher handlings combined with improved tariffs.

It was a busy year at Thunder Bay with handlings reaching 2,219,000 tonnes. This was 7.5 per cent higher than the previous year's handlings of 2,066,000 tonnes. Elevator M reached the highest level of receipts since it was purchased in 1968. Receipts at Elevator A, however, were down slightly.

Both Elevator A and Elevator M slips were dredged in July to allow "topping off" of salt water vessels. Consideration is being given to installing high shipping spouts in the workhouse at Elevator A in order to increase the loading-out capacity of this elevator. Such spouts will also save the expense of cleaning out the annex shipping bins after each loading of an overseas vessel.

The increasing percentage of hopper cars compared to boxcars may mean another permanent pit will have to be installed at Elevator A and one of the present dumpers eliminated. Also the present scales at Elevator A are obsolete and all seven will have to be replaced.

Track work at Elevator A has been an ongoing process, and there is still work to be done before all the tracks can adequately carry fully-loaded hopper cars.

Truck unloading facilities were set up at Elevator M in the fall of 1979 with the thousands of bushels of flax accepted this past crop year when flax was needed to fill out cargo lots. They are available if circumstances warranting their use return.

The old tanks of the Thunder Bay elevator still stand, but a recent inspection indicated they are no longer a viable alternative to new storage. Therefore, their eventual demolition seems likely.

Some new cleaning equipment has been installed at Thunder Bay, but more is needed to replace or add to the older machinery.

Receipts at your Vancouver terminal were up 273,000 tonnes, although it was expected the increase at Vancouver would have been substantially more. Although your Vancouver terminal was operating without the handicap of shutdowns for modernization changes that occurred the previous year, average unloads were disappointing and below what was anticipated. This was due to a number of reasons. It is expected daily unload performance during 1980-81 will improve substantially.

The gallery system can no longer service the larger vessels using Vancouver, therefore, the gallery will probably be raised.

*At the modernized Vancouver, British Columbia terminal, boxcars and hopper cars can be unloaded simultaneously. At the end of the loading gallery, a ship is being loaded with grain for Far East markets.*

The control room at the Vancouver elevator promises to be very successful as soon as the scales, printers, and field devices are in full operation.

A bulk handling facility, which would eventually be incorporated into permanent storage, may be built as an interim measure to overcome some of the difficulties created by pellets and by-products. It would provide much-needed relief until new storage can be provided.

United Grain Growers has negotiated a port terminal handling agreement with the Weyburn Inland Terminal to handle both Canadian Wheat Board grains and open market grains and oilseeds commencing November 1, 1980. A similar agreement is under negotiation with another independent firm.

New labour contracts have to be negotiated during the current fiscal year since the contract for both Vancouver and Thunder Bay will expire during the year.

### Marketing Operations

For the first time in the six full years since United Grain Growers formed a marketing division, net earnings were positive. Profits this past year exceeded $1.5 million, well up from the previous year's loss of $0.2 million. The main reason for the improvement was better margins realized on trading rapeseed and flaxseed and recovery of $443,000 as partial payment on a 1976 defaulted durum wheat contract.

Sales by the marketing operations increased slightly to a record 3 million tonnes. United Grain Growers is now established as the largest shipper of feed grains to Quebec and a major supplier to Ontario. It is increasing its role as an exporter of rapeseed, flaxseed and malting barley.

In the current year, the marketing operations may experience a decline of sales out of the Lakehead. Prairie sales of feed grain to the domestic market may encounter extreme competition from Ontario winter wheat which is of poor quality due to bad harvesting conditions. The Japanese market for rapeseed is expected to be steady, and since this forms the backbone of UGG's Pacific trade, prospects for West Coast sales appear normal.

## Feed Operations

The past year's feed operations of United Feeds started at a pace that appeared headed for a record. After the first quarter, however, declining hog and fat cattle prices combined with strengthening feed grain and protein prices caused a drawdown in hog numbers and a sell-out of cattle, with no replacements purchased, in a number of feedlots. The result was that the fiscal year ended with a decline in tonnage volume of feed sales from the previous year by 3.5 per cent.

Net profits fell by $0.4 million from the previous year due to a drop in volume of sales and a substantial increase in operating costs, mainly due to a rise in interest on working capital and salary increases.

The $1.4 million net profits, however, were the third best in the history of United Feeds and your feed operations continued to be the leader in sales of processed feeds in the Prairies. United Feeds is an important processor of grain. In the 1980 fiscal year, 10.6 million bushels of grain were processed through the primary and grind mix mills — 65 per cent of which was bought directly from farmers.

Construction of the first phase of the new feed mill at Lethbridge was completed last December and 90 per cent of all rolled feed from Lethbridge is now processed in the new mill.

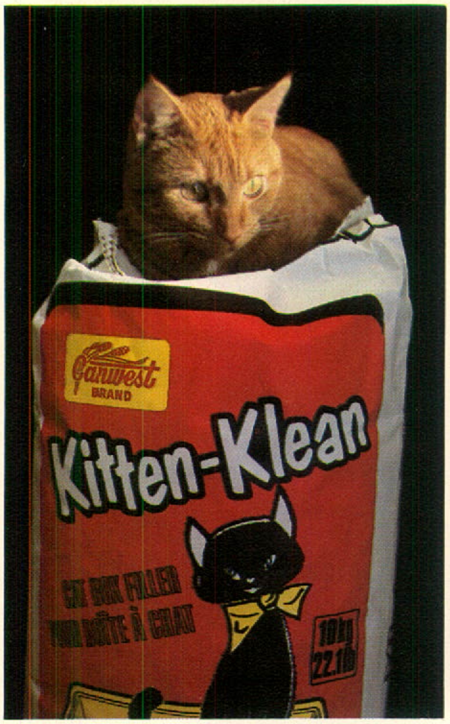
Contracts have been issued for the next phase — grinding, pelleting and bagging facilities plus the erection of an office and warehouse. Total cost of the new Lethbridge mill, when completed, will be about $3 million.

Other construction programs involve:

- Expanding pelleting facilities at Camrose to handle increasing business and provide better quality feed. This involved a capital expenditure of $94,000 and includes the installation of a 200 HP pellet mill and another steam boiler.

- Installing a new computer in Calgary. This improved computer service will speed up the formulating


*United Feeds continues to be the leader in feed sales in the Prairie provinces. Grinding, pelleting and bagging facilities are being added to the new Unifeed plant at Lethbridge, Alberta.*



*A bio-degradable litter box filler is being packaged at the Winnipeg seed plant and sold under the Canwest brand.*


*Western Brand Pet Food continues to gain acceptance. It is made at the United Feeds pet food plant at Innisfail, Alberta.*

of feeds with more accuracy and will save your company and its customers money.

- Installing an automatic packaging machine at the Innisfail Pet Food Plant to package 2-kg and 4-kg bags. This, with other minor renovations enabled reduction from a three-to two-shift operation.

The situation facing livestock and poultry feeders, and, therefore, your feed operation in the current year is not bright. Over the past year feed grain prices increased $35 to $45 a tonne, and soya meal and rapeseed meal are up $22 and $37 a tonne respectively. Therefore, the price of complete feeds is up sharply.

In beef cattle feeding, barley prices currently range from $120 to $135 per tonne, with feeder cattle costing 80 to 90 cents per pound. With fat cattle prices not expected to improve beyond 80 cents, it is unlikely cattle feeding rates will be heavy. This situation, as it stands, could seriously affect the volume of feed sales by United Feeds.

Dairy feed sales will not be as seriously affected since dairy farmers are receiving a stable price for their milk and their operations will remain relatively steady.

Feeding of hogs has slowed down some and indications are a decline of 10 per cent is likely.

Hog operators have had some relief with temporary stop-loss programs paid to the producer over and above costs.

At the start of last fiscal year, Alberta broiler quotas were set at 130 per cent. These quotas, however, were reduced to a current level of 115 per cent. Some adjustment in the price of broilers has been made to compensate for the input costs. The margins of profit, however, have been affected by the drop in quotas plus the higher input costs. This situation tends to put a squeeze on margins and, therefore, profits.

## Public Press Operations

Public Press operates a publishing and printing business. It is the country's largest publisher of agricultural magazines and is 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. Country Guide's* advertising lineage this past year rose 12 per cent.

The publishing division also publishes *Cattlemen,* Canada's leading beef publication. Advertising lineage was up 15 per cent this past year.

As a result of record advertising revenue in both magazines, high rate of subscription renewals and new subscribers, the publishing division showed a substantial profit over last year.

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

The printing division achieved an increase in sales over the previous year of $1.2 million. Operations were adversely affected by several factors including sharply escalating costs of supplies, buildup in paper inventory to cushion the effects of a paper mill strike, unusually high repair costs and the excessive overtime required to produce the additional workload, but final results for the fiscal year showed a substantial improvement.

With the installation of a new web press, scheduled to be in production by December, and with a 20 per cent increase in sales forecast for the current fiscal year, the outlook for printing operations is extremely encouraging.

# 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 Grain 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. Until July 31, 1980, it was jointly owned by United Grain Growers Limited (33⅓ per cent), British Columbia Packers Limited (33⅓ per cent), Mitsubishi Corporation (23⅓ 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 canola/rapeseed crushing industry.

This past fiscal year UOPL was able to sustain the significant turnaround, first achieved in 1979, after some difficult years. After providing for income taxes and dividends, $3.9 million was applied to retained earnings. United Grain Growers' share of this is one-third, or $1.3 million.

The company crushed more than its rated capacity this past year and this, in addition to a reasonably good crushing margin throughout the year, was the reason for the satisfactory financial performance.

The 1979 crop was the second large canola/rapeseed crop in a row and it meant there was plenty of seed for both export and domestic crusher demand. The result was growers offered sufficient amounts of seed to the company at prices competitive with U.S. soybean prices. This had a positive effect on crushing margins since canola oil and meal are marketed against U.S. soybean oil and meal.

Other things, such as the devalued Canadian dollar, helped make the Canadian products more competitive in world markets. United Oilseed Products' marketing connections and the growth in demand for vegetable oil and protein meal on a worldwide scale added to the price stability and helped to achieve positive crushing margins. The continued growth in demand for canola meal by the domestic market is turning into a very positive factor.

Financial prospects for the current year are still uncertain. Unfavourable planting and growing conditions for both the 1980 Canadian canola/rapeseed crop and the soybean crop have made predictions of acreage and yield much more difficult than usual. It is expected the acreage of Canadian canola/rapeseed will be well down from 1979 — possibly by 30 per cent. Even though the production of canola and U.S. soybeans is down from 1979, large carryovers from 1979 should ensure enough supplies to meet demand.

World political and economic factors had a major effect on markets and price levels of oil and meal during the 1979 fiscal year. The Middle East crisis, which led the United States to embargo grain sales to the Soviet Union, had a big effect on the market. In addition, worldwide inflation, high interest rates and escalating petroleum prices significantly affected the world oilseed market.

If enough seed for crushing at prices competitive with other world oilseeds is available, UOPL expects reasonably good results for the current year. It is felt consumption of vegetable oils and protein meals will show a continual increase in the current year, enabling the company to crush at its rated capacity of 180,000 tonnes.

Crushing volume for the industry in the 1979-80 crop year was more than 900,000 tonnes. This provided a market outlet to growers second only to the Japanese export market. It means the domestic crushing market is helping provide more stability to prices and allowing canola/rapeseed production to expand over the years.

In September 1980, the directors authorized purchase of one-half the shares of British Columbia Packers Limited, a former joint owner. This moved UGG from one-third owner to one-half owner.

*United Grain Growers now has one-half the modern United Oilseed Products plant at Lloydminster, Alberta. Its capacity is 180,000 tonnes a year.*

## Prince Rupert Grain 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 company are Alberta Wheat Pool, Cargill Grain Company Limited, Manitoba Pool Elevators, James Richardson and Sons Ltd., and Saskatchewan Wheat Pool. United Grain Growers' interest is 15 per cent.

In July, 1979, a memorandum of understanding was signed by the government of Canada and the company providing for the building of a new grain terminal at Prince Rupert and transfer of the existing elevator to Prince Rupert Grain Ltd.

Early in the 1980 fiscal year, a site evaluation committee was established to select the most suitable terminal site. After evaluating the rock-slide potential, development costs, port capabilities, and counsel from the Marine Pilots Association, Ridley Island was selected as the site.

After many months of negotiations, an agreement between Prince Rupert Grain and the National Harbors Board was finally reached in late September of this year. Within a few days, site clearing began.

The agreement permits Prince Rupert Grain to delay its final decision whether to proceed with actual construction until December 1, 1981. This should provide adequate time for detailed design and cost studies to be completed, permitting a careful analysis to precede the final decision. At the present time, cost estimates range up to $200 million. All members of the consortium have indicated an interest in continued participation in the terminal.

The Government of Alberta has agreed to a financing arrangement which calls for the government to provide $150 million in first mortgage bonds and debentures.

During the crop year, Alberta Wheat Pool on behalf of Prince Rupert Grain, began managing the existing grain terminal at Prince Rupert. A number of modifications and alterations to the old structure were made.

# Other Items

## 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 18 years in which it has been published, *The Grain Grower* has performed a useful farm management service to western agriculture, howev-

*A unique seed cleaner, developed by Harvey Gjesdal, a master-farmer and seed grower at Birch Hills, Saskatchewan puts the grain through five cleaning processes. Lorne Lambden, Delisle, Saskatchewan fitted wheels on his Five-in-One cleaner to make it easier to move. Inset: Guy Blondeau has permanently installed the cleaner in his seed cleaning plant at Domremy, Saskatchewan.*

er, its kind of service is now being duplicated in a sense and distributed free by provincial departments of agriculture. Accordingly, in order to reduce costs, measures are being studied to combine *The Grain Grower* with *Grainews* or to eliminate *The Grain Grower* entirely if its services aren't considered unique by farmers.

*The Grain Grower's* 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 farmers' forum and technical service to Prairie farmers. Measures are being studied to increase the advertising inserts including a special advertising section. At the request of members, no advertising, however, will appear among the editorial features.

A related service, UGG Farmer's Library was started in 1978. It specializes in the sale of books from farm families not usually available through customary sources. Just under 5,000 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, insurance services, and financial services.

Your company's own insurance program contains a substantial deductible provision 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. Two years ago, 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 identification 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) continues to be popular among younger farmers who show awareness of the value of insurance when setting up their farm business.

The Registered Retirement Savings Plan (Tax Saver) is the most popular plan in the series. The plan offers farmers the opportunity to level out taxable income and defer income and was utilized to a high level by customers this past year.

In January, 1980, several changes were made in the Tax Saver plan. To keep up with fluctuating interest rates, interest on the current Tax Saver plan (called Plan A) is now the monthly average of the interest paid by three of Canada's major banks. This change means there will no longer be a minimum rate of interest. The rate could be as much as 18 per cent in a month or as low as 8 per cent — whatever the banks average.

An entirely new option under the Tax Saver plan provides a *guaranteed* rate of interest for five years. The rate of interest paid will be the rate offered, at the time the funds (minimum $500) are deposited, by Canada's three largest trust companies in their registered five-year guaranteed investment certificates. Each month a new five-year rate on new deposits will be offered.

Interest on this new option, called Plan B, will be compounded to maturity. The interest will automatically be applied to the purchase of a new five-year deposit plan at the trust company rate then in effect. No withdrawals are permitted in Plan B.

A further change is: start-up charges and yearly administration charges have been eliminated.

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 during the last fiscal year continued to make favorable progress confirming that the plan has proven popular among farmers.

In 1978, United Grain Growers introduced a financial service for farmers. This service is free of charge and answers questions and provides help in estate planning, making wills, and retirement planning.

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

## 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, and the Western Agriculture Conference.

# Farm Policy

## 'Two-Price' Wheat Increase

Minimum and maximum prices for red spring wheat sold for domestic human consumption was raised to $5 and $7 per bushel, respectively, on August 1, 1980, up from the $4 and $5 limits in effect since 1978.

Adjustments also have been made in the durum pricing schedule as of August 1st. A minimum of $5 per bushel will be paid for durum, and the ceiling will be eliminated. This compares with an earlier minimum of $4 and maximum of $7.50.

The directors of United Grain Growers approve of the 'two-price' wheat policy but are concerned about slow government reaction to raise maximum domestic levels during times of rising wheat prices. Farmers lost millions of dollars this past fiscal year due to this slow reaction, and publication of the order-in-council, when it finally came this past May, did not make the new price levels effective until August 1. Recent red spring wheat price levels have exceeded $7 per bushel, which means farmers again are subsidizing the consumer.

## 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 convention or agreement provides only for consultation in the event of threatened market instability, and serves mainly as an information source on the world wheat situation. This present convention has been in effect since the 1960s when the old International Grain's Arrangement was abandoned because of non-compliance with its highly restrictive terms.

In July of this past fiscal year, the International Wheat Council moved a step closer to negotiating an alternative Wheat Trade Convention to replace the present one. The new convention, unlike previous proposals which included rather rigid terms, emphasizes flexible actions to implement price stability and food security. At the same time, the proposed actions continue to focus on the accumulation and release of nationally-held reserves and appropriate times when various steps will be taken.

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 initiated this past spring in Saskatoon.

## Commodity Marketing

The Minister Responsible for The Canadian Wheat Board, Senator Hazen Argue, has publicly advocated that rapeseed be marketed by The Canadian Wheat Board.

In December, 1973, 41,142 rapeseed growers were mailed a questionnaire from the federal government asking whether they preferred rapeseed to be sold through the open market, through The Canadian Wheat Board, or whether they were undecided. The results of the poll were: 52.7 per cent in favor of the open market, 46.2 per cent in favor of Canadian Wheat Board marketing, and 1.1 per cent undecided.

The directors of United Grain Growers recommend no change be made in the method of marketing rapeseed or any farm commodity unless a sizeable majority of producers of the commodity so indicate in a poll.

## Domestic Feed Grain Marketing

The Advisory Committee to The Canadian Wheat Board and the Advisory Committee to the Canadian Livestock Feed Board have publicly advocated domestic feed grains be marketed only by The Canadian Wheat Board.

On August 1, 1974, after an interim policy of several months, Prairie farmers were grantec the freedom to sell feed grains to anyone within Canada. Prior to that, they could only sell to feedlots or feed mills within a province in the designated area or to The Canadian Wheat Board. This policy was introduced in response to complaints from other parts of Canada that Prairie livestock feeders had unfair access to cheaper feed grains.

The Canadian Federation of Agriculture attempted to obtain agreement on a solution to the problem but could not, neither in 1973 nor when it was requested to after the policy was in effect. The Minister of Agriculture and the Minister Responsible for The Canadian Wheat Board introduced the present policy which has had some amendments since.

The present Domestic Feed Grains Policy allows farmers the choice of selling to either The Canadian Wheat Board or to the open market or to both, depending on their inclinations. Space quotas have prevented congestion, of individual elevators and the elevator system, with open market feed grains. Purchasers of feed grains can buy from anybody within Canada.

Unless it can be shown a better system can be provided, the directors of United Grain Growers advocate retaining the present dual system. They recommend no precipitous action by the federal government that would deny farmers the freedom of the dual system before it consults with them by producer plebiscite. The directors would not want Canada to return to the turmoil and ill feeling between East and West that occurred prior to introduction of the present policy.

The directors of United Grain Growers question any tinkering by the Canadian Livestock Feed Board and its advisors in the affairs of Prairie grain growers since both are appointed bodies representing the interests of buyers outside the Prairies. In addition, they recommend that the Advisory Committee to The Canadian Wheat Board limit its advice to the Wheat Board in the interests of Prairie grain farmers rather than attempt to engage in farm policy matters affecting the well-being of purchasers of feed grains.

### Feed Grains Pricing Formula

On August 1, 1976 after two years of absence, The Canadian Wheat Board again started selling feed grains domestically within Canada. The price the Wheat Board sells its grains at is based on a secret formula related to the price of corn and soybean meal landed in Montreal.

The directors of United Grain Growers believe the formula could be a price depressing factor and would prefer that the formula price policy be rescinded and let the seller obtain the highest price possible.

### Rail Transportation

Transportation policy remains an issue of major concern to western farmers and United Grain Growers. The board of directors of United Grain Growers continues to be concerned about how this policy is evolving. It is critical for all parties involved to recognize the changing realities of grain transportation in western Canada and approach discussions on this subject with an open mind.

United Grain Growers is committed to working with both grain and livestock producers, farm organizations, the railways and all levels of government with the objective of a unified Prairie transportation policy.

The overall objective should be to ensure that the most efficient and effective transportation system evolves and, at the same time, the Prairie's comparative advantage in the livestock and secondary processing industries is preserved.

United Grain Growers believes the basic principles relative to rail freight rates are:

- the railways receive compensatory rates for the movement of grain;
- the Government of Canada pick up the current shortfall (Crow gap) in perpetuity; and
- The Government of Canada, farmers and railways negotiate any inflationary increases.

The basic principle relating to the livestock and secondary processing industries is that all monies paid to achieve compensatory rates be distributed in such a manner that the impact of such monies on livestock producers and secondary processors be neutral.

It is the belief of the board of directors of United Grain Growers that in achieving the overall objective these principles are inseparable and must all be part of an ultimate solution.

## Conclusion

This report shows United Grain Growers is strong in financial resources and assets. Your company continues to grow in strength and influence and last year's operating and financial results and its working capital position testify to this.

Once again, the directors wish to acknowledge the source of United Grain Growers' strength: the farm people who own the company, the customers who use its services and the people who work in its elevators, feed plants and offices. A special thanks is due elevator managers, who put forth the extra effort to move record amounts of grain through your elevators.

The directors 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.

It is important to remember 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 revenue from handling grain 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.

Competition for business has provided untold savings to all farmers throughout the West. With numbers of elevators reducing 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. 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 its volume of handling. The attainment of this increase largely rests with members.

As this report indicates, your company's elevators handled an all-time-record volume of grain this past fiscal year. The 4.24 million tonnes received is solid evidence of strong producer support for the way United Grain Growers conducts its business. It is also proof that your company's program of elevator rebuilding and modernization, started some years ago, is helping to move grain to export positions in an efficient manner.

The record profits your company enjoyed this past year must be tempered with the reality of inflation. As was mentioned earlier in this report, the $13.3 million earned in the 1974 fiscal year actually was higher in constant dollar terms than the $20.3 million earned this past year. As farmers themselves find, today's dollar buys less machinery and fertilizer than the dollar of yesterday. United Grain Growers cannot build or rebuild as many elevators as rapidly as needed simply because costs of construction have escalated so much. In the 1974 annual report, it was noted a replacement elevator cost $350,000; today, a comparable elevator costs $700,000 (Appendix A).

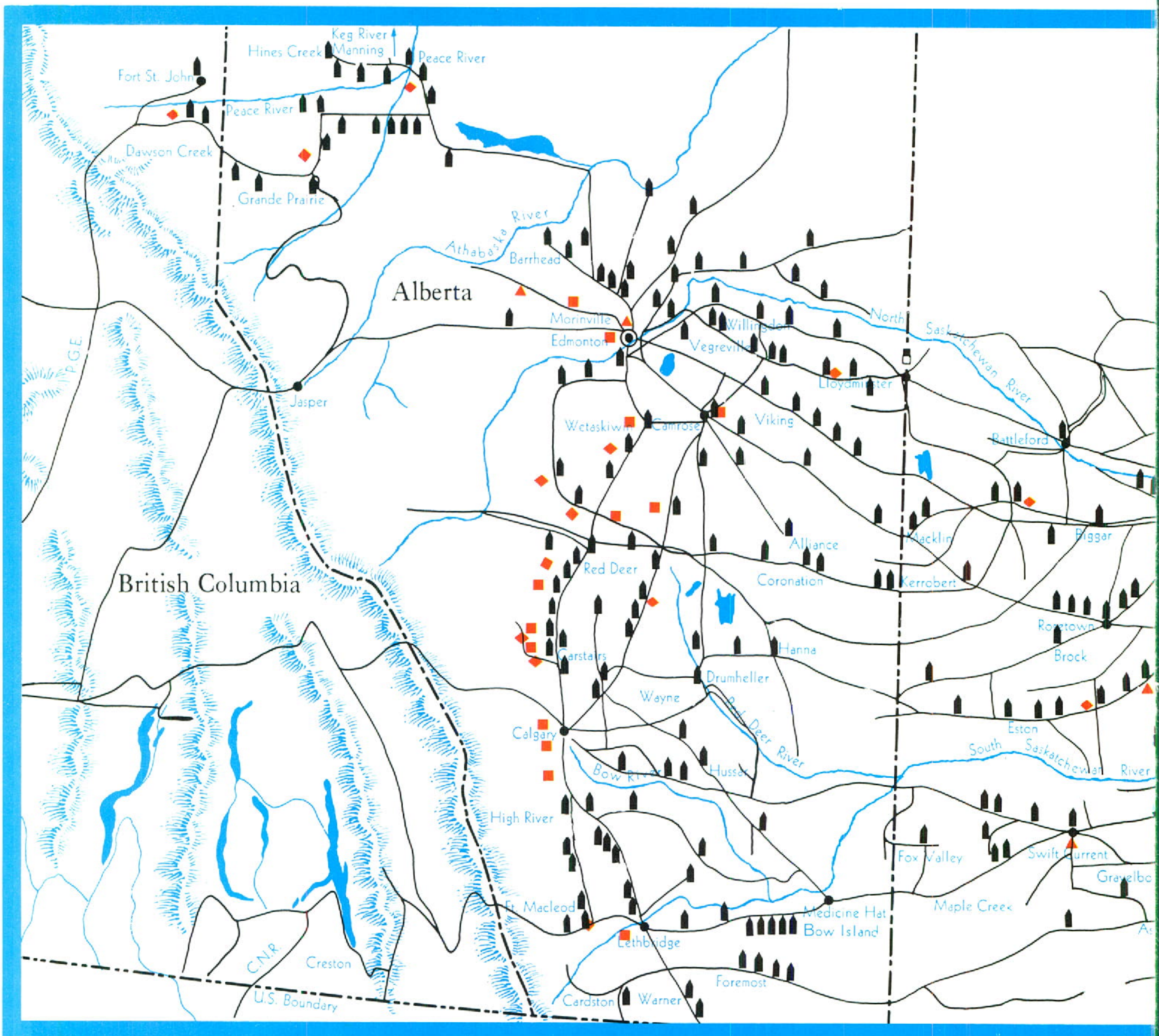
Still, United Grain Growers has had a country elevator modernization plan in effect for many years and it is paying off. This program is being accelerated and should provide the vast majority of customers with access to a fully modern plant before the end of the next decade. This is the pledge that United Grain Growers makes to its members in this, its 75th year.

A M Runciman

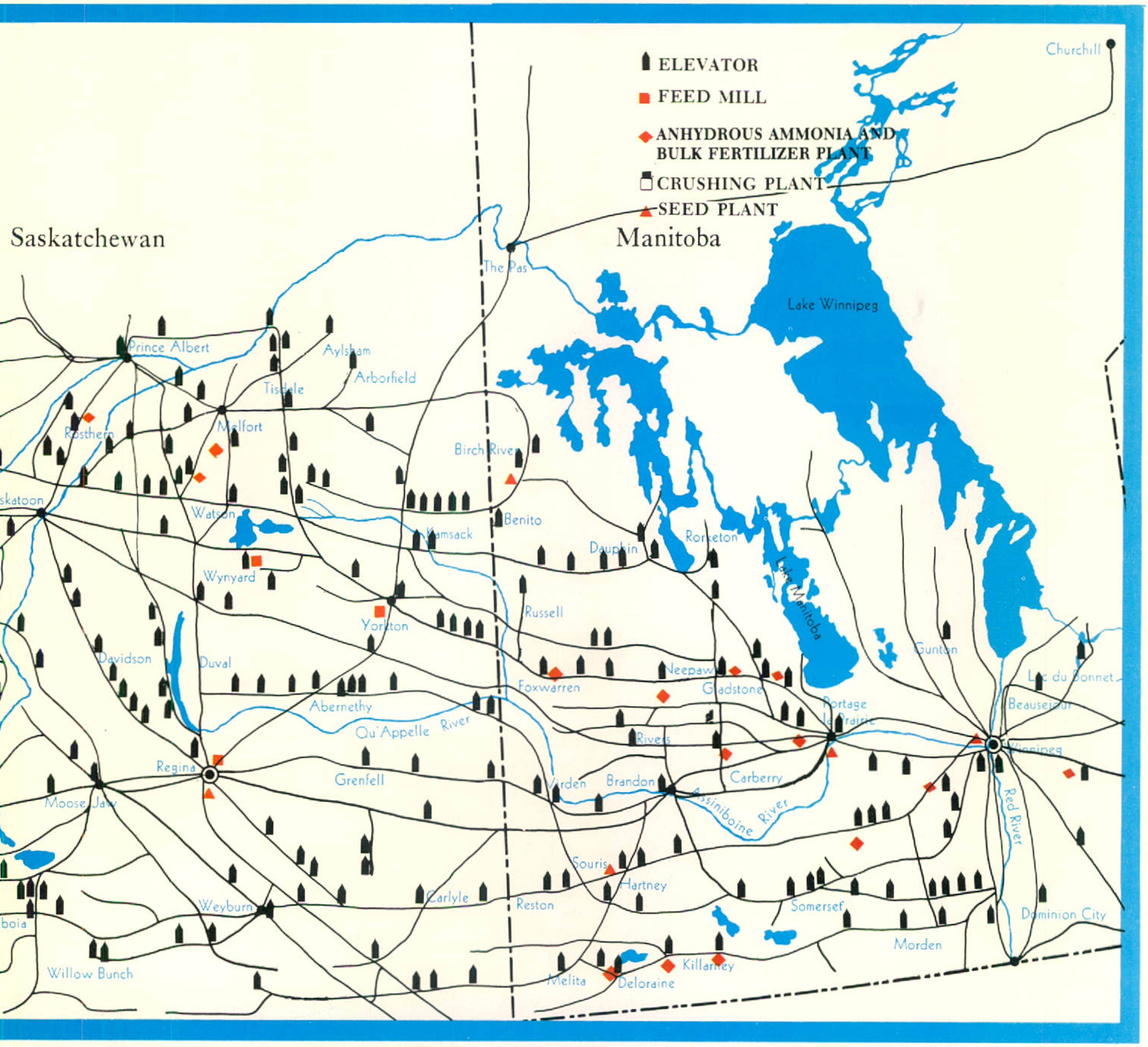
*President*

United Grain Growers

## The Company that 70,0



## 00 prairie farmers built



# Financial Statements

## Earnings

### For the Year Ended July 31, 1980

| | | 1979 Comparison |
|---|---|---|
| Sales and revenue from services (note 1) | $1,247,611,000 | $890,288,000 |
| Operating revenues | $ 102,696,000 | $ 78,385,000 |
| Gain on property disposals (note 2) | 1,415,000 | 1,380,000 |
| Share of net earnings of associated companies (note 5) | 1,452,000 | 1,608,000 |
| | $ 105,563,000 | $ 81,373,000 |
| Operating, general and administrative expenses (note 3) | 85,293,000 | 70,776,000 |
| Earnings before patronage dividend and income taxes | $ 20,270,000 | $ 10,597,000 |
| Provision for patronage dividend | 6,600,000 | 1,850,000 |
| | $ 13,670,000 | $ 8,747,000 |
| Provision for income taxes including $4,280,000 deferred (1979 — $2,380,000) | 4,475,000 | 2,380,000 |
| Net earnings | $ 9,195,000 | $ 6,367,000 |

## Retained Earnings

### For the Year Ended July 31, 1980

| | | 1979 Comparison |
|---|---|---|
| Balance at beginning of year | $ 35,029,000 | $ 29,478,000 |
| Net earnings | 9,195,000 | 6,367,000 |
| | $ 44,224,000 | $ 35,845,000 |
| Deduct: | | |
| Dividend of 7% declared on Class A Shares | $ 927,000 | $ 789,000 |
| Dividend of 7% provided on Class B Shares | 30,000 | 27,000 |
| | $ 957,000 | $ 816,000 |
| Balance at end of year | $ 43,267,000 | $ 35,029,000 |

# Changes in Working Capital

## For the Year Ended July 31, 1980

| | | 1979 Comparison |
|---|---|---|
| **Working Capital Derived From** | | |
| Operations | | |
| Net earnings | $ 9,195,000 | $ 6,367,000 |
| Items affecting earnings not requiring use of working capital | 14,720,000 | 5,781,000 |
| | $ 23,915,000 | $ 12,148,000 |
| Dividend received from associated company (note 5) | 700,000 | — |
| Issue of promissory notes | 96,000 | 253,000 |
| | $ 24,711,000 | $ 12,401,000 |
| **Working Capital Applied To** | | |
| Capital expenditures for properties, net | $ 9,602,000 | $ 16,309,000 |
| Retirement of long-term liabilities | | |
| Series A debentures | 950,000 | — |
| Promissory notes and purchase agreement | 862,000 | 994,000 |
| Patronage dividends | 272,000 | 285,000 |
| Shareholders' dividends | 957,000 | 816,000 |
| Other | — | 10,000 |
| | $ 12,643,000 | $ 18,414,000 |
| **Increase (Decrease) in Working Capital** | $ 12,068,000 | $ (6,013,000) |
| Working capital at beginning of year | 18,460,000 | 24,473,000 |
| Working capital at end of year | $ 30,528,000 | $ 18,460,000 |

# Financial Position
## July 31, 1980

### ASSETS

| Current | | 1979 Comparison |
|---|---|---|
| Cash | $ 4,889,000 | $ 2,321,000 |
| Deposits — The Canadian Wheat Board | 13,831,000 | 6,073,000 |
| Accounts and accruals receivable | 43,097,000 | 44,907,000 |
| Inventories (note 4) | 160,051,000 | 173,638,000 |
| Prepaid expenses | 2,685,000 | 2,666,000 |
| | $224,553,000 | $229,605,000 |
| **Other** | | |
| Deferred financing expense | $ 197,000 | $ 209,000 |
| Investments (note 5) | 3,404,000 | 2,652,000 |
| | $ 3,601,000 | $ 2,861,000 |
| **Fixed** | | |
| Properties, at cost (note 6) | $138,054,000 | $128,450,000 |
| Accumulated depreciation | 52,039,000 | 46,757,000 |
| | $ 86,015,000 | $ 81,693,000 |
| | $314,169,000 | $314,159,000 |

Approved by the Board:

A M Runciman Director

Ted Allen Director

## LIABILITIES

| | | 1979 Comparison |
|---|---|---|
| **Current** | | |
| Bank loans, secured (note 7) | $ 71,509,000 | $ 85,910,000 |
| Other loans | 55,401,000 | 70,432,000 |
| Unpresented grain and other cheques | 48,533,000 | 36,826,000 |
| Accounts payable and accruals | 15,574,000 | 15,972,000 |
| Dividend payable to shareholders | 927,000 | 789,000 |
| Current maturities of long-term liabilities | 2,081,000 | 1,216,000 |
| | $194,025,000 | $211,145,000 |
| **Long-Term** | | |
| Series A debentures (note 8) | $ 19,050,000 | $ 20,000,000 |
| Promissory notes (note 9) | 2,242,000 | 2,890,000 |
| Purchase agreement maturing $118,000 annually to 1995 | 1,648,000 | 1,766,000 |
| Patronage dividends (note 9) | 20,142,000 | 15,083,000 |
| | $ 43,082,000 | $ 39,739,000 |
| **Deferred Taxes on Income** | $ 18,865,000 | $ 14,585,000 |

## SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| **Share Capital** (note 10) | | |
| Class A non-voting non-cumulative redeemable preferred shares callable at $24, par value $20 each Authorized 1,200,000 shares; Outstanding 725,478 shares | $ 14,509,000 | $ 13,247,000 |
| Class B (membership) shares par value $5 each Authorized 200,000 shares; Outstanding 84,128 shares | 421,000 | 414,000 |
| **Retained Earnings** | 43,267,000 | 35,029,000 |
| | $ 58,197,000 | $ 48,690,000 |
| | $314,169,000 | $314,159,000 |

# Notes to Financial Statements

## July 31, 1980

### 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 and include export sales of $180,438,000.

*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 as follows:

| | | |
|---|---|---|
| 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 country elevator facilities destroyed by fire during the year.

### 3. Operating, General and Administrative Expenses

| Operating, general and administrative expenses include — | | 1979 Comparison |
|---|---|---|
| Depreciation | $ 6,695,000 | $ 4,527,000 |
| Interest on long-term debt | 3,177,000 | 3,196,000 |
| Interest on other debt, net of interest recovered from The Canadian Wheat Board | 10,843,000 | 6,999,000 |

### 4. Inventories

| | | 1979 Comparison |
|---|---|---|
| Grain held for the account of The Canadian Wheat Board | $ 46,223,000 | $ 65,062,000 |
| Grain held for the Company's own account | 80,921,000 | 86,647,000 |
| Farm supplies, seeds and feeds | 32,907,000 | 21,929,000 |
| | $160,051,000 | $173,638,000 |

The grain inventory includes both hedged and unhedged positions.

### 5. Investments

| | | 1979 Comparison |
|---|---|---|
| United Oilseed Products Ltd. (one-third equity) | | |
| Shares, at cost | $ 2,600,000 | $ 2,600,000 |
| Share of accumulated net earnings | 1,244,000 | (58,000) |
| | $ 3,844,000 | $ 2,542,000 |
| Less: Dividend received | 700,000 | — |
| | $ 3,144,000 | $ 2,542,000 |
| Prince Rupert Grain Ltd. | | |
| Advance | $ 10,000 | $ 10,000 |
| Share of net earnings | 150,000 | — |
| | $ 160,000 | $ 10,000 |
| Northland Bank | | |
| Common shares, at cost | $ 100,000 | $ 100,000 |
| | $ 3,404,000 | $ 2,652,000 |

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 by that company. Subsequent to July 31, 1980 the Company has made arrangements to increase to 50% its equity in United Oilseed Products Ltd.

The Company has entered into an agreement with five other grain companies to form a Consortium. 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 and whereby the existing grain terminal elevator is being operated by the Consortium.

**6. Properties**

| | | 1979 Comparison |
|---|---|---|
| Country elevator properties, feed plants, seed cleaning plants, warehouses, sheds, etc. | $ 81,304,000 | $ 74,003,000 |
| Terminal elevator properties | 49,866,000 | 48,369,000 |
| Printing plant equipment | 1,583,000 | 1,266,000 |
| Miscellaneous equipment | 5,301,000 | 4,812,000 |
| | $138,054,000 | $128,450,000 |

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 sixteen years, involving current minimum annual rental payments of approximately $2,600,000.

**7. Bank Loans**

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

**8. 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.

**9. Promissory Notes and Patronage Dividends**

| Promissory notes and patronage dividend credits mature in each of the fiscal years as follows: | Promissory Notes | Patronage Dividend Credits |
|---|---|---|
| 1982 | $ 767,000 | $ 1,466,000 |
| 1983 | 621,000 | 2,087,000 |
| 1984 | 717,000 | 1,907,000 |
| 1985 | 137,000 | 4,284,000 |
| 1986 | — | 2,478,000 |
| 1987-90 | — | 1,320,000 |
| | $ 2,242,000 | $ 13,542,000 |
| Provision for allocation on 1979-80 grain purchases | | 6,600,000 |
| | | $ 20,142,000 |

**10. Share Capital**

A portion of the 1978-79 patronage dividend was allocated to customers by the issuance of Class A and B shares on July 31, 1980. The allotment consisted of 63,115 Class A shares with a par value of $1,262,300 and 2,571 Class B membership shares with a par value of $12,855.

In addition, during the year 35 Class A shares were issued at par value and 1,274 Class B shares were purchased for re-issue.

# Responsibility for Financial Statements

**UNITED GRAIN GROWERS LIMITED**

The financial statements of the Company for the year ended July 31, 1980 have been prepared by management in accordance with generally accepted accounting principles applied in a manner consistent with previous years. Careful judgments have been made in the preparation 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 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 financial position of the Company at July 31, 1980 and results of its operations for the year then ended.

The Company's 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.

Winnipeg, Canada
October 9, 1980

G. D. Moss
General Manager

Treasurer

# Auditors' Report to the Shareholders

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

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, 1980, 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, 1980 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.

Winnipeg, Canada
October 9, 1980

Price Waterhouse & Co.
Chartered Accountants

# Comments on Financial Statements

## Earnings

The Earnings statement shows sales and revenue from services of $1,247,611,000 which includes the sales 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 $102,696,000, gain on property disposals of $1,415,000 and share of net earnings of associated companies of $1,452,000. Operating, general and administrative expenses amounting to $85,293,000 include interest expense, net of interest recovered from The Canadian Wheat Board of $14,020,000 and provision for depreciation of $6,695,000. This leaves earnings of $20,270,000 before patronage dividend and income taxes.

Provision for patronage dividend on grain purchases during the past fiscal year is $6,600,000.

Provision for taxes on income is $4,475,000, of which $4,280,000 is deferred.

This leaves net earnings of $9,195,000 which amount is carried to Retained Earnings.

## Retained Earnings

Retained Earnings at the beginning of the fiscal year were $35,029,000. The addition of net earnings brings the total to $44,224,000. From this amount is deducted a dividend of 7% declared on class A shares, amounting to $927,000 and a dividend provision of 7% amounting to $30,000 on Class B shares. Retained Earnings are $43,267,000 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 $9,195,000, items affecting earnings not requiring use of working capital of $14,720,000, a dividend received from an associated company of $700,000, and issue of promissory notes of $96,000.

Working capital was used during the year for capital expenditures for properties of $9,602,000 after deduction of proceeds on property disposals, retirement of long-term liabilities including Series A debentures of $950,000, promissory notes and purchase agreement of $862,000 and patronage dividends of $272,000, and shareholders' dividend of $957,000.

The net increase in working capital for the year amounts to $12,068,000 (1979 — $6,013,000 decrease) which brings the total to $30,528,000 (1979 — $18,460,000) at the end of the fiscal year. The working capital position of the Company is very 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** ........................ **$4,889,000**

(1979 — $2,321,000). 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** ....... **$13,831,000**

(1979 — $6,073,000). 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 are refundable to the Company when the deferred cash tickets become due and payable.

**Accounts and Accruals Receivable** .................. **$43,097,000**

(1979 — $44,907,000). 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 $1,016,000 (1979 — $2,494,000) is carried against possible uncollectible accounts.

Inventories . . . . . . . . . . . . . . . . . $160,051,000 (1979 — $173,638,000). Grain held for the account of The Canadian Wheat Board amounting to $46,223,000 (1979 — $65,062,000) 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 $80,921,000 (1979 — $86,647,000) 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 lower than a year ago, because of lower quantities of grain in the country.

The remainder of the Inventories of $32,907,000 (1979 — $21,929,000) include feeds, seeds, fertilizers, agricultural chemicals and twine. Stocks of these are carried at many locations to be available as required.

Prepaid Expenses . . . . . . . . . . . . $2,685,000 (1979 — $2,666,000). 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 . . . . . . . . . . . . . $224,553,000 (1979 — $229,605,000). This is the total of the foregoing items and is to be compared with the total current liabilities of $194,025,000 shown on the opposite side of the Financial Position statement. The difference of $30,528,000 is working capital (1979 — $18,460,000).

Deferred Financing Expense . . . . . $197,000 (1979 — $209,000). This represents unamortized 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 . . . . . . . . . . . . . . . . . . $3,404,000 (1979 — $2,652,000). This includes $2,600,000 representing the cost of one-third of the issued common shares of United Oilseed Products Ltd., plus $1,244,000 representing one-third of accumulated net earnings less $700,000 in dividend received, an investment of $10,000 in Prince Rupert Grain Ltd. plus $150,000 representing the Company's share of net earnings to date, and investment of $100,000 in common shares of Northland Bank.

Properties, at Cost . . . . . . . . . . . $138,054,000 (1979 — $128,450,000). This represents the cost of properties owned at the year end. The increase mainly includes the cost of improvements and additions of $7,301,000 to country properties and $1,497,000 to terminal properties.

Accumulated Depreciation . . . . $52,039,000 (1979 — $46,757,000). 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 $6,695,000 (1979 — $4,527,000).

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 . . . . . . . . . . . . . . $314,169,000 (1979 — $314,159,000). This total is approximately the same as the previous year.

## Liabilities

**Bank Loans, Secured** ......... $71,509,000
(1979 — $85,910,000). 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 12½% per annum and at the time of writing is 13%.

The decreases in bank and other loans are due mainly to lower inventories.

**Other Loans** ................. $55,401,000
(1979 — $70,432,000). 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** .............. $48,533,000
(1979 — $36,826,000). 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 $16,900,000 (1979 — $12,000,000) is represented by grain purchase cheques which were post-dated to 1981.

**Accounts Payable and Accruals** .................... $15,574,000
(1979 — $15,972,000). 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** .................. $927,000
(1979 — $789,000). This represents 7% on the paid-up value of Class A shares as at July 30, 1980, 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 2%. 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** .......... $2,081,000
(1979 — $1,216,000). 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 $195,000, promissory notes of $818,000, instalments on purchase agreement of $118,000 and Series A debenture of $950,000.

**Total Current Liabilities** ...... $194,025,000
(1979 — $211,145,000). This total has already been compared with Total Current Assets in order to establish the amount of working capital.

**Series A Debentures** ......... $19,050,000
(1979 — $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 ............. $2,242,000
(1979 — $2,890,000). 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 $336,000 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 $1,906,000 were issued in prior years for longer periods.

Purchase Agreement .......... $1,648,000
(1979 — $1,766,000). 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 1981 to 1995.

Patronage Dividends ......... $20,142,000
(1979 — $15,083,000). This includes the amount of $6,600,000 as provided from earnings for patronage dividend on grain purchases for the year just ended. It also includes credits issued against grain purchases for previous years. These credits bear interest at 3, 4 or 6% depending upon the year of issue and are redeemable in varying amounts annually on May 15 until 1990.

Deferred Taxes on Income .... $18,865,000
(1979 — $14,585,000). 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 ............... $14,930,000
(1979 — $13,661,000). At July 31, 1980, the paid-up value of Class A shares outstanding is $14,509,000 and the par value of Class B shares outstanding is $421,000.

Retained Earnings ........... $43,267,000
(1979 — $35,029,000). This represents the cumulative amount of net earnings reinvested in the Company.

Shareholders' Equity ......... $58,197,000
(1979 — $48,690,000). This includes Share Capital and Retained Earnings and represents the total shareholders' investment in the Company.

Total ...................... $314,169,000
(1979 — $314,159,000). This is the sum of Liabilities and Shareholders' Equity and is the same as the Total Assets recorded opposite on the Financial Position statement.

# 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 ½ 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 2 per cent per annum bring the rate to 7 per cent per annum which was paid in 1980. 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 294 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.

# Ten-Year Comparative Summary

| Financial | 1980 | 1979 | 1978 |
|---|---|---|---|
| Operating revenues | $102,696 | $78,385 | $69,629 |
| Earnings before patronage dividends and income tax | 20,270 | 10,597 | 6,852 |
| Net earnings | 9,195 | 6,367 | 3,025 |
| Working capital | 30,528 | 18,460 | 24,473 |
| Capital expenditures — net | 9,602 | 16,309 | 13,643 |
| Total investment in fixed assets | 138,054 | 128,450 | 111,211 |
| Accumulated depreciation on fixed assets | 52,039 | 46,757 | 42,680 |
| Paid-up share capital | 14,930 | 13,661 | 12,538 |
| Shareholders' equity | 58,197 | 48,690 | 42,016 |
| Cumulative total of shareholders' dividends | 17,019 | 16,092 | 15,303 |
| Cumulative total of patronage dividends including interest thereon | 55,675 | 48,546 | 46,214 |
| **Statistical** | | | |
| Country handling — in thousands of tonnes | 4,235 | 3,612 | 4,170 |
| Elevator licensed storage capacities — in thousands of tonnes | | | |
| Country | 1,552 | 1,639 | 1,666 |
| Terminal | 424 | 424 | 424 |
| Number of country elevator manager units | 381 | 402 | 420 |
| Total licensed elevators | 584 | 628 | 648 |
| Number of employees | 1,907 | 1,908 | 1,816 |
| Number of shareholders | 90,053 | 92,892 | 87,015 |
| Number of shareholders' locals | 294 | 299 | 306 |

| 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|---|
| (000's) | | | | | | |
| $61,640 | $57,251 | $49,845 | $48,638 | $37,381 | $34,234 | $32,117 |
| 1,936 | 5,305 | 7,399 | 13,274 | 4,729 | 5,052 | 5,085 |
| 1,280 | 1,065 | 2,569 | 3,374 | 1,809 | 1,932 | 2,045 |
| 29,808 | 19,964 | 21,252 | 20,960 | 13,900 | 11,874 | 11,450 |
| 11,433 | 9,874 | 5,037 | 3,785 | 4,246 | 4,135 | 1,722 |
| 98,894 | 87,513 | 78,069 | 74,196 | 70,991 | 67,671 | 63,658 |
| 40,086 | 36,914 | 34,072 | 32,080 | 30,105 | 28,774 | 27,112 |
| 12,546 | 10,428 | 9,190 | 6,796 | 6,797 | 6,797 | 6,795 |
| 39,810 | 37,096 | 35,348 | 30,798 | 27,833 | 26,432 | 24,906 |
| 14,412 | 13,759 | 13,229 | 12,838 | 12,381 | 11,990 | 11,599 |
| 43,931 | 43,319 | 40,079 | 36,832 | 29,255 | 27,658 | 26,131 |
| 3,734 | 3,407 | 2,770 | 3,088 | 3,456 | 3,284 | 2,843 |
| 1,681 | 1,738 | 1,756 | 1,800 | 1,803 | 1,792 | 1,858 |
| 424 | 424 | 424 | 424 | 452 | 456 | 466 |
| (units) | | | | | | |
| 434 | 452 | 472 | 481 | 492 | 499 | 534 |
| 669 | 701 | 720 | 750 | 759 | 768 | 793 |
| 1,910 | 2,104 | 2,022 | 2,003 | 2,100 | 2,116 | 1,956 |
| 90,651 | 81,898 | 77,603 | 57,798 | 57,992 | 57,642 | 58,063 |
| 311 | 313 | 317 | 323 | 327 | 330 | 326 |

APPENDIX A

# 1980-81 Budgets for New Elevator Construction

Inflation continues to challenge the development of new elevator facilities. Much as in previous years 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 of 12 per cent 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 $700,000.

**Projected Long-Run Market Conditions**

- Average handle of 16,000 tonnes.
- Average sales of $150,000.
- Average daily stocks in store of 65% of licensed capacity.
- A balance of revenues and expenses on incidental items.

| Revenues | | Expenses | |
|---|---|---|---|
| **Handling Earnings:** $6.10 x 16,000 tonnes | $ 97,600 | **Direct Operating:** $4.20 x 16,000 tonnes | $ 67,200 |
| **Sales Earnings:** 20% x $150,000 | 30,000 | **Direct Fixed:** | 89,000 |
| **Storage Earnings:** 3,500 tonnes x .65 x .024 x 365 | 19,929 | **Overhead & Administration:** $2.70 x 16,000 tonnes | 43,200 |
| **Terminal Earnings:** 80¢ x 16,000 tonnes | 12,800 | | |
| **Total** | $160,329 | **Total** | $199,400 |
| | | **Loss** | $ 39,071 |

| Projected Handlings (tonnes) | Projected Sales $ | Total Revenue $ | Exp./Tonne Handling $ | Total Expense $ | Net Position $ |
|---|---|---|---|---|---|
| 16,000 | 150,000 | 160,300 | 12.46 | 199,400 | -39,100 |
| 20,000 | 170,000 | 191,900 | 11.35 | 227,000 | -35,100 |
| 24,000 | 190,000 | 223,500 | 10.60 | 254,500 | -31,000 |
| 28,000 | 220,000 | 256,300 | 10.07 | 282,200 | -25,900 |
| 32,000 | 250,000 | 290,700 | 9.08 | 309,800 | -19,100 |
| 34,000 | 300,000 | 314,500 | 9.51 | 323,600 | - 9,100 |
| 38,000 | 350,000 | 352,100 | 9.24 | 351,200 | + 900 |

**Conclusions: The above Table setting out the position for Elevator Construction Alternative A shows that handling of over 34,000 tonnes (1.3 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 financially 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 at $900,000. 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 | |
|---|---|---|---|
| **Handling Earnings:** $6.10 x 25,000 tonnes | $152,500 | **Direct Operating:** $4.20 x 25,000 tonnes | $105,000 |
| **Sales Earnings:** 20% x $250,000 | 50,000 | **Direct Fixed:** | 112,000 |
| **Storage Earnings:** 5,000 tonnes x .65 x .024 x 365 | 28,470 | **Overhead & Administration:** $2.70 x 25,000 tonnes | 67,500 |
| **Terminal Earnings:** 80¢ x 25,000 tonnes | 20,000 | | |
| **Total** | $250,970 | **Total** | $284,500 |
| | | **Loss** | $ 33,530 |

| Projected Handlings (tonnes) | Projected Sales $ | Total Revenue $ | Exp/Tonne Handling $ | Total Expense $ | Net Position $ |
|---|---|---|---|---|---|
| 25,000 | 250,000 | 250,970 | 11.38 | 284,500 | -33,530 |
| 28,000 | 300,000 | 281,700 | 10.90 | 305,200 | -23,500 |
| 31,000 | 350,000 | 312,300 | 10.51 | 325,900 | -13,600 |
| 34,000 | 400,000 | 343,100 | 10.19 | 346,600 | - 3,500 |
| 37,000 | 450,000 | 373,800 | 9.93 | 367,300 | 6,500 |

**Conclusions: The above table shows that under Alternative B a handling of approximately 37,000 tonnes and farm supply sales of $450,000 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. Interest rates continue to have a dramatic impact on capital planning.

APPENDIX B

# Inflation and the Prairie Farmer

Inflation is seen by many farm people as a threat, perhaps the greatest threat they face now, to their economic well-being.

It is difficult to list the nature of farmers' concern about inflation. Inflation is the continuing decline in the value of money due to the continuing rise in the average value of all goods and services produced or sold in Canada. When farmers express their concern about inflation they have in mind not the general price rise but rather a failure of farm commodity prices to rise as fast as the cost of the items farmers buy. In other words, farmers see the problem as one of *relative prices* of commodities and inputs and such a worry occurred during the depression of the 1930s just as it occurs now.

This report makes extensive use of the Consumer Price Index showing how the real income of farmers and United Grain Growers, when deflated by the Consumer Price Index, is really much lower than it appears as expressed in 1980 dollars. That is why even though The Canadian Wheat Board priced wheat this fall at better than $7 a bushel, $2 a bushel more than in the good year of 1974-75, the dollar has eroded 50 per cent and the real price of that $7 wheat in terms of what it could buy in 1975 is only $3.50 a bushel.

It is important though for farmers and all Canadians who are interested in stopping inflation to realize inflation is not the result of high prices. They are a symptom, not a cause. When there isn't inflation, prices of individual products will always be rising and falling according to demand and supply but there will be little change in the *average* level of all prices over an extended time. Under inflation, the average level of all prices rises year after year, although some prices rise faster than others.

The basic cause of inflation is an increase in the supply of money in the year or two preceding the year the inflation rate is measured. The cumulative effect of growth in the money supply exceeding the rate of growth in supply of goods and services available for purchase causes inflation.

The federal government causes the increase in the supply of money and therefore it causes inflation. Only the government can cure inflation. The costs of oil, groceries and wages are only symptoms of inflation. *It is government spending in excess of government receipts financed by borrowing that causes inflation.* Only restrictions in the money supply along with sizeable cuts in spending will cure inflation. The transfer of income in the form of taxes from companies and from individuals such as farmers must be reduced so capital formation can be increased and productivity can be increased. The transfer of profits in the forms of employee salaries and government salaries and social welfare schemes of various kinds must be drastically reduced if the virulence of inflation is to be slowed.

The federal government is now a major competitor to business and farmers in the money market since it borrows money to finance its deficit spending. It is unfair and unwise to restrict the credit supply to farmers and individuals and businesses in the credit sector, through interest rates or limits, while the government gets all the credit it wants. Most private borrowing is done to acquire assets or expand production, and this leads to an increase in goods and services that tends to offset the effect of monetary growth on prices of goods and services. Government borrowing, on the other hand, is inflationary because it generally increases the supply of money without producing an offsetting increase in the supply of goods and services available for purchase.

The way to counteract inflation is for the government to control future increases in direct government payments and program benefits to individual Canadians. Curtailment of indexed government pensions geared to increases in the cost of living, curtailment of subsidized freight rates, subsidized oil prices, medical care, family allowances and a host of other programs geared to increases in the cost of living will counteract inflation.

As far as farmers are concerned, the most serious costs seem to have to do with *unanticipated fluctuations in the rate of inflation,* and this same occurence can happen also in times of depression.

For farmers who own land or money, inflation is a tax. It is a cost for holding that money or land. A speed-up in inflation helps those in debt since they can repay their creditors with cheaper dollars than they borrowed. Creditors now anticipate this, of course, and they try to get more interest on loans to make up for the loss. It is one reason for current high interest rates.

These costs affect everyone and the overwhelming concern of farmers is the *relative* price of the commodities they sell compared to the products they buy. The effects of general price increases have been much less regular and predictable than the effects on prices paid.

Farmers are hit as are non-farmers by the tax effect of being pushed into higher income tax brackets. The real problem, though, is that as investors in depreciable assets they find themselves unable even to depreciate for tax purposes the real value of these assets. A farmer can find that by the time $20,000 is depreciated it costs $40,000 to replace it.

However, it is the unprecedented degree of risk and the new and unfamiliar source of risk that is most worrisome about today's inflation. There is an environment of uncertainty almost unreal to the holder of real assets. An example serves best to illustrate the problem.

Suppose a farmer wants to purchase a half-section of farmland for $500 an acre. Since he already has $200,000 of equity in land he owns, he has no difficulty borrowing $160,000. He has to pay 12 per cent interest rate.

After the purchase, the farmer has assets of $360,000. He has $200,000 total equity with $160,000 debt. His income statement could look some-thing like this: the $360,000 in land yields, the long-term rate of about 3 per cent, giving him an income of about $10,000 a year. But the $160,000 in debt costs about $19,000 per year in interest payments.

However, if inflation occurs at the current rate of 15 per cent* and land prices move with it, the farmer can expect to capture about $54,000 in nominal wealth gains.

This $54,000 increase in the value of his land plus $10,000 annual income minus his $19,000 interest payments leaves him $45,000 a year. This works out to a total return, including unrealized capital gains, of just over 12 per cent — a normal market rate.

However, the first problem is a cash flow problem. The $54,000 is unrealized. With a $10,000 income and $19,000 interest payments, his realized return is -$9,000. Therefore, the farmer must either borrow more money on the basis of increase in value of his farm or increase his equity through some off-farm income.

The same kind of problem would not occur if there was no inflation. The interest rate would be 3 per cent and there would be no increase in the value of the land due to inflation.

The farmer's return would be $10,000 from the farm from which he would pay $4,800 interest. This would give him a 2.5 per cent return on equity, somewhat less than the interest rate, but the cash flow problem would not arise.

The new-entry farmer with a smaller equity faces still another economic attack from inflation. While established owners may benefit from inflation-boosted prices on land they own and have paid for, newer farmers see inflation gains on land almost wiped out by interest payments on that land, plus high interest payments on operating loans. This kind of debt financing can create a critical cash flow problem. In order to meet increased operating costs each year and cover all interest costs on land purchases, the new-entry farmer must depend on paper inflationary gains on land as evidence of increased equity to his lender. It seems some farmers are on a treadmill and only the money lenders gain from it.

Another point to note is the impact of income taxes. Any payment made on the principal of a land purchase is made from taxed dollars. Also, it must be realized that capital gains are taxable.

Besides the cash flow problem, inflation also creates a very risky environment. If inflation speeds up, land values tend to rise faster. That 12 per cent loan may prove to be a bargain. But suppose the federal government indeed strives to bring inflation down — as it gave no indication of doing in its October budget — and is successful? Increases in land prices, as other prices, will tend to slow down. The interest costs will not. In this case, the farmer paying 12 per cent interest can incur great net losses.

Long-term interest rates will not adjust downward until the markets are convinced the long-term rate of inflation has declined. When interest rates on mortgages finally fall, the debt may be refinanced at lower interest.

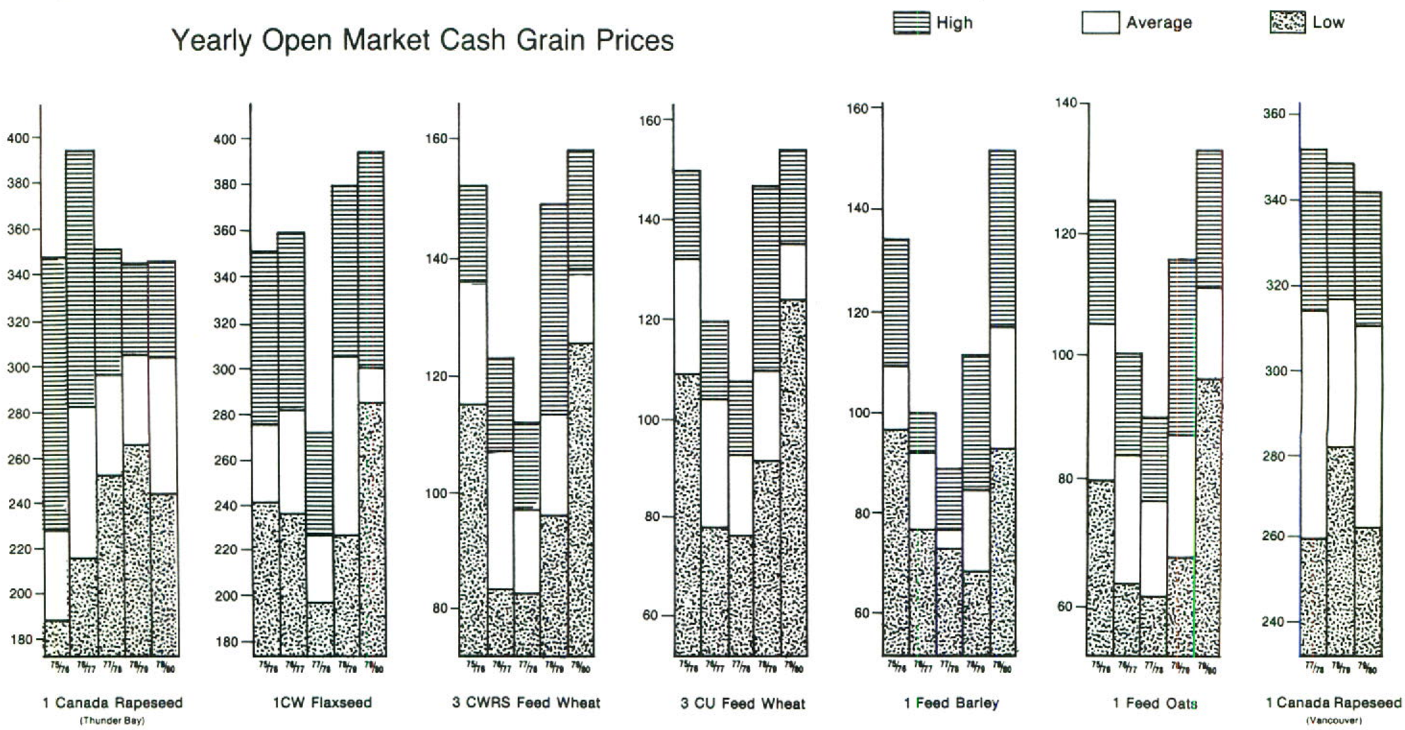
The risk to landowners when the rate of inflation goes down cannot be overemphasized. If extraordinary gains are made when inflation speeds up, a corresponding chance for losses can be expected. The overall result is an extraordinary element of risk imposed on farmers by living in an environment of inflation.

There is simply no way in this country of forecasting whether inflation will accelerate or declerate over the next five years. Certainly one alternative is to take a straight ruler and extrapolate a trend which makes the odds of "more of the same" reasonably high.

One can also assume the world has changed so much that the past provides less guide to the future. Anything can happen. There is too much uncertainty to plan and, in this case, conservatism, caution and the minimization of risks should be the byword of the day until clearer trends emerge.

***Using a 1971 CPI of 100.**

Yearly Open Market Cash Grain Prices

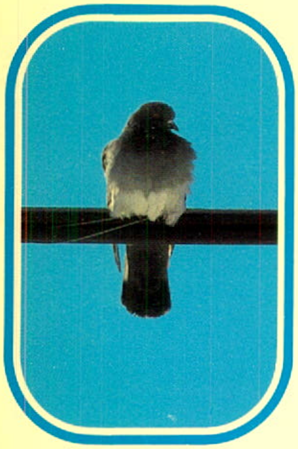


ROUGH-LEGGED HAWK

HAWK OWL

PINE SISKIN

BLACK-BACKED THREE-TOED WOODPECKER



ROCK DOVE

BOREAL OWL

GREAT HORNED OWL

SCREECH OWL

WHITE-WINGED CROSSBILL

HAIRY WOODPECKER

COMMON STARLING

SPARROW HAWK

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SPARROW HAWK

**PARKS CANADA**
SNOW BUNTING


PINE GROSBEAK


RING-NECKED PHEASANT


BLACK-BILLED MAGPIE


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