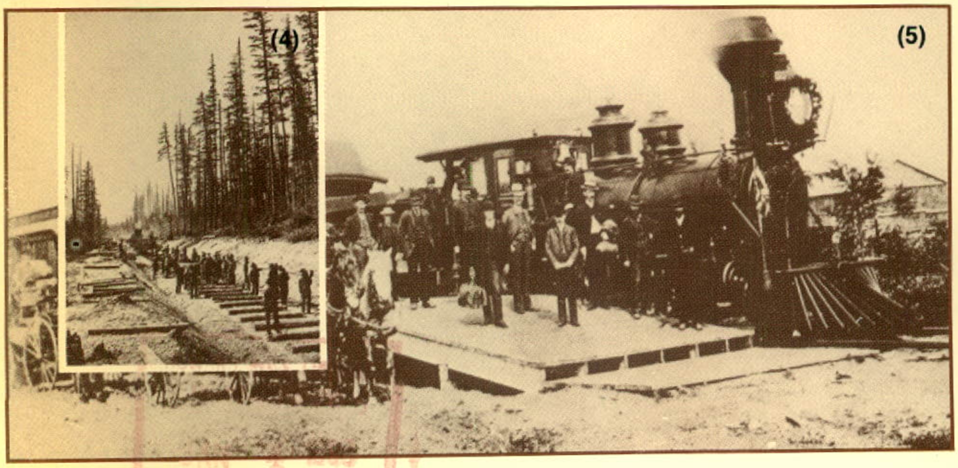
75th Annual Report

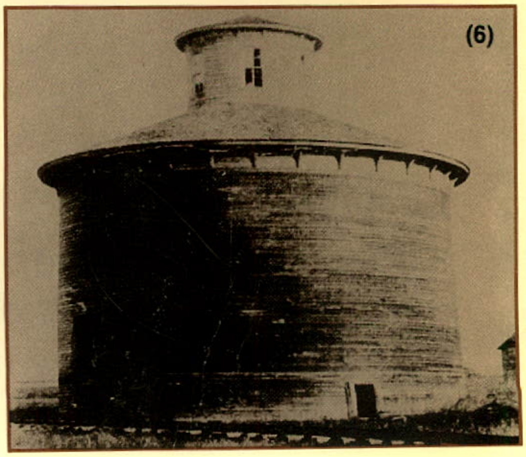
To the Shareholders of

UNITED GRAIN GROWERS LIMITED

United Grain Growers 75

For the year ended July 31, 1981





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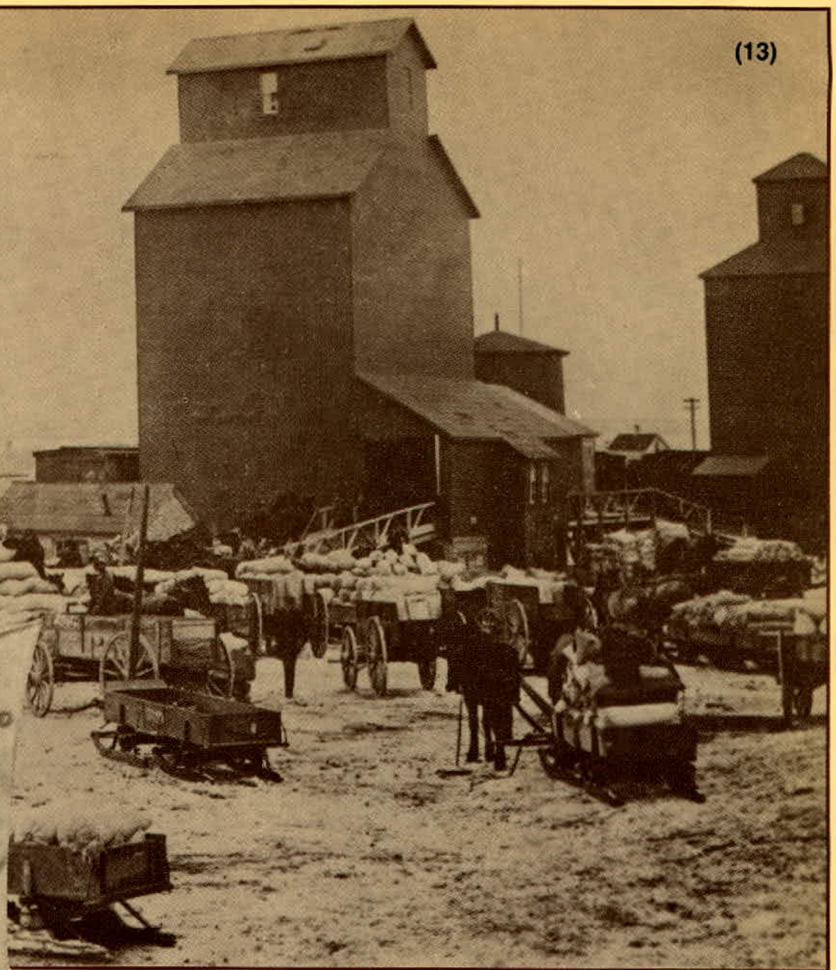

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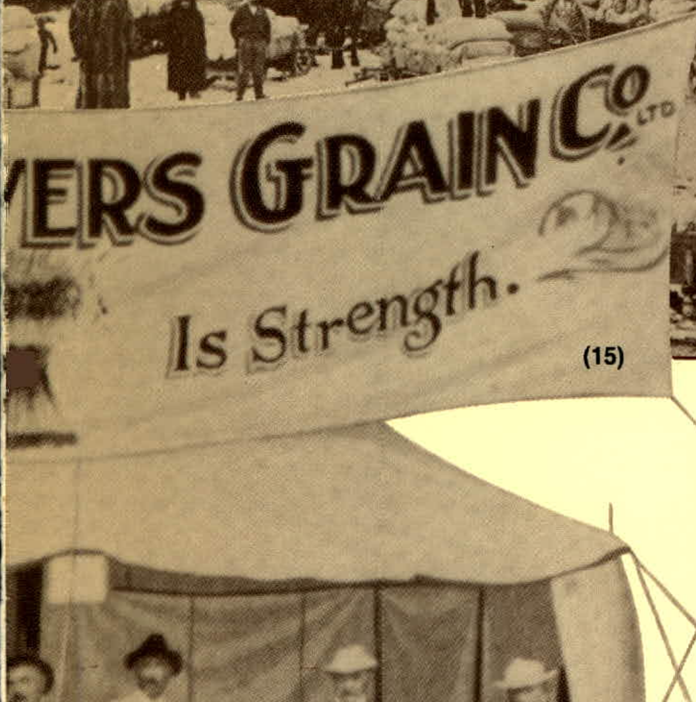

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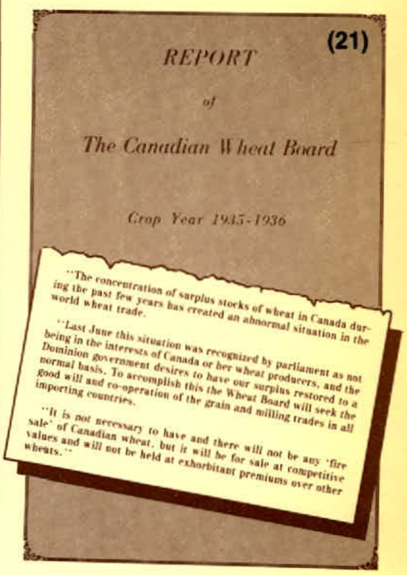

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REPORT

of

The Canadian Wheat Board

Crop Year 1935-1936

"The concentration of surplus stocks of wheat in Canada during the past few years has created an abnormal situation in the world wheat trade.

"Last June this situation was recognized by parliament as not being in the interests of Canada or her wheat producers, and the Dominion government desires to have our surplus restored to a normal basis. To accomplish this the Wheat Board will seek the good will and co-operation of the grain and milling trades in all importing countries.

"It is not necessary to have and there will not be any 'fire sale' of Canadian wheat, but it will be for sale at competitive values and will not be held at exhorbitant premiums over other wheats."


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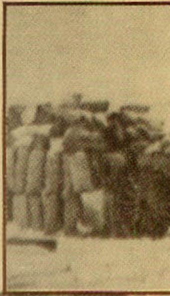

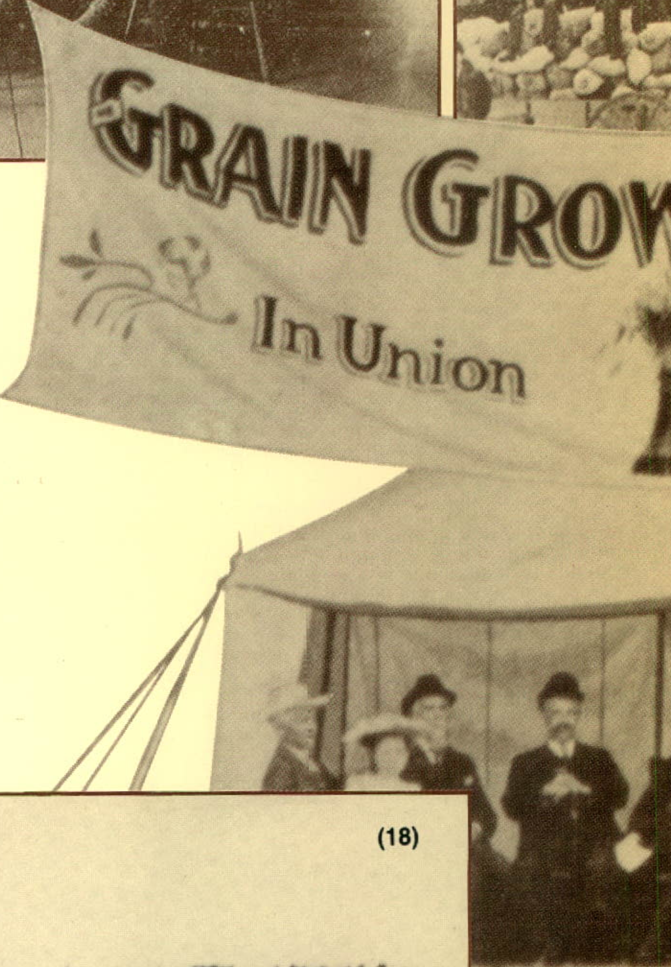


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Following is the first prospectus of the Grain Growers' Grain Company provided to farmers in 1905. The Grain Growers' Grain Company amalgamated with the Alberta Farmers' Co-operative Elevator Company in 1917 to create United Grain Growers Limited.

Shall we co-operate to secure legitimate values for our wheat

"Experience is the great teacher."

"Knowledge is power."

"Unity is strength."

Co-operation and Its Adaptation to Our Circumstances

Sintaluta, Assa. N.W.T.
March 1st, 1905.

Farmers of The West:

To the student of conditions existing in the industrial, commercial and financial world to-day it is evident that captains of industry, merchant princes and masters of finance have, by the elimination of competition and the substitution of co-operation therefor among themselves been enabled to levy an excessive and ever increasing tribute on the great unorganized mass of wealth producers throughout the world, to the building up of colossal fortunes on the one hand and consequent widespread impoverishment and virtual enslavement on the other.

Pools, mergers, combines, trusts and monopolies are various forms of the co-operative principle acting within narrow limits to the benefit of the co-operatives and the prejudices of the outside world; and so effective are these narrow co-operative institutions that shrewd observers have predicted that, unless the present opportunities of those who are already wealthy be in some way restricted, a quarter of a century will see ninety-nine per cent of the wealth of North America the private property of one per cent of its population.

Shall we look for a remedy in legislative penalties against Co-operation which makes the trusts and combines so effective for the accumulation of wealth?

By no means.

Co-operation is in essence both sane and moral and only awaits the evolution of a population sufficiently enlightened to practice it on a large scale to become the most powerful weapon of defence against the financial buccaneers who employ it within narrow limits for their own enrichment; and needs only to be universally employed to bring about an industrial millennium.

We cannot put back the hour hand of time. We cannot go back to individual competition but must move forward to widespread co-operation.

Competition is as wasteful and as debasing to the morals as war, in fact it is war in the economic domain, and the aim of the brightest business minds in the world to-day is to eliminate it from their own particular business while encouraging it in all others. Openly they stand for the competitive principle, privately they practice Co-operation.

Large corporations, that is to say, groups of men Co-operating to attain a certain object are Gullivers among Lilliputians and the relations between giants and pygmies must be unfavorable to the latter.

Giants may compete with giants, pygmies with pygmies, pygmies with giants, never.

The giants must be resolved into their original elements of pygmies or the remaining pygmies must be incorporated into giants. The latter is the easier and more rational course.

"The Beef Trust", "Standard Oil", "Americal Steel", "Amalgamated Coppers", "The Sugar Trust", "The International Harvest Co.", Traffic and Freight Associations, Bankers' Associations, even Traders' Unions are some of the well known giants. Already the shadow of the coming "Bread Trust" darkens the land.

Will an Armour or a Rockefeller organize it to extort fresh billions from producers of wheat and consumers of bread alike or will the great plain people, learning wisdom from those who spoil them, organize themselves into an association that will become the sturdiest giant in the group and so restore the balance of power?

Thus, and thus alone can the intolerable situation be done away with wherein each mighty trust,

> "Doth bestride the narrow world"
> "Like a huge Colossus and we petty men"
> "Walk under his huge legs and peep about"
> "To find ourselves dishonorable graves."

The old economic conditions have passed away never to return. We must move on with the procession or be trampled underfoot.

The primitive group of individuals, the wheelwright, the blacksmith, the weaver, the shoemaker, the miller, the shopkeeper, and the farmer who knew all the details of each others business and their own, who performed the work of transportation and the business of exchange for themselves at first hand and who by reason of their intimate knowledge of conditions in their little world, adapted their production to the requirements of the law of supply and demand and set the price at relative cost of production — this group has passed away. We are no longer denizens of a hamlet, but citizens of a world.

The transcontinental railway, the ocean greyhound, the colossal Niagara-driven factory with its myriad employees, the huge flouring mill with customers from Pekin to Paris through all the parallels from Hudson's Straits to the Horn, the interlocking, retroacting financial commercial and industrial interests of a thousand million people have precluded the possibility of a single individual acquiring in his own person the knowledge and financial strength to set up equitable commercial relations in the world market.

For the sake of their own prosperity and the prosperity and even liberty of their descendants this truth must be brought home to our people.

It is not to be expected that the whole farming population of even this enlightened West can at once be made to see the grave necessity of concerted action.

But there is reason to believe that the time is ripe for inaugurating the co-operative movement to the extent of forming a company of farmers to undertake the marketing of their wheat.

A thousand farmers controlling ten million bushels of wheat and selling through a single accredited agent would be in a position of a single person owning ten million bushels. It is a well known fact that the owner of ten thousand bushels can make a much better bargain for his wheat than the owner of one thousand bushels. How much would this power be augmented in the owner of ten million bushels.

Would the owner of ten million bushels peddle his wheat by the wagon load at the local shipping point, or by the car load in Winnipeg? Would he pay one hundred thousand dollars to a commission man to sell his wheat, with perhaps a nice rake-off to an exporter who turns it over at a profit by selling it to a British dealer who blends it and makes a good living by selling the blend to a British miller?

Would he pay one hundred and seventy-five thousand dollars to the line elevator and stand a dockage of one hundred thousand bushels in addition? Would he pay the terminal elevator seventy-five thousand dollars to weigh it and clean out twenty-five thousand dollars worth of screenings? Would he pay two and a half million dollars for transportation when by a little method known to large exporters he could save one and a quarter million dollars out of this item?

THE PROPOSITION

It is proposed to initiate the co-operative movement by organizing a joint stock company of one thousand farmers with a capital of one quarter of a million dollars divided into one thousand shares of two hundred and fifty dollars each for the purpose of selling their principal product — wheat — in the most economical manner and at the highest legitimate price to be obtained in the world's markets.

In order to provide for the extension of the co-operative principle to other lines which will assuredly follow success in this initial undertaking, it is proposed to apply for the following powers under a Dominion Charter;

"The general nature of the business to be carried on shall be to buy, receive, handle, deal in and sell all kinds of grain and seeds both as owner and as a broker for a commission for handling and selling the same; to own and operate mills for the manufacture of flour, meal and all other mill products, and to sell and exchange the same, both as owner and as broker for a commission for manufacturing, handling and selling the same; to buy, receive, handle, deal in and sell all farm and dairy products and to manufacture dairy products of all kinds both as owner and as a broker for a commission for manufacturing, handling and selling the same; to buy, receive, handle, deal in and sell live stock, and manufacture and sell all kinds of fresh and cured meats and meat products, both as owner and as a broker for a commission for handling, and selling the same; to manufacture and buy, handle, deal in and sell agricultural implements and machinery, coal and lumber, and to manufacture, sell and deal in such other articles of merchandise as are most and generally used by farmers."

Certain safeguards will be used to prevent the Company from becoming the prey of capitalists:

(a) The ownership of stock will be restricted to owners and operators of farms who are members of the Manitoba or Territorial Grain Growers' Association.

(b) No person shall acquire more than four shares of stock.

(c) One shareholder, one vote.

(d) A shareholder can only be represented by proxy by another shareholder who resides within a radius of forty miles from his home and who is not an officer of the Company.

The members of the central executives of the Grain Growers' Associations will be recognized as honorary members of the Board of Directors of the company without vote, not for the purpose of exploiting the prestige of the Grain Growers' Association, but to disseminate a knowledge of trade conditions which will result in the widening of the Co-operative movement.

The amount of a share is purposely large in order that the shareholders may represent the more successful element of the farming class. Those who have applied business principles to their private undertakings will employ them in the affairs of a corporation.

The man who is too weak financially or too lacking in moral courage to risk two hundred and fifty dollars (the price of a horse) in the endeavor to gain the knowledge and power necessary to enable him to exchange the products of his farm for the products of the forest, the factory and the mine on equitable terms is not wanted in this initial movement.

The advance guard must be brave.

Our forefathers shouldered their guns and risked their lives for freedom.

We their sons will scarcely refuse to shoulder a little responsibility and risk a few dollars to perpetuate that blessing.

The actual business details are not here enlarged upon.

Armour and Rockefeller act first and talk afterwards, or rather let their deeds speak for themselves. 'Tis a good plan.

This circular letter will be read before a meeting of each sub-association of Grain Growers throughout Manitoba and the

Presidents

Grain Growers Grain Company

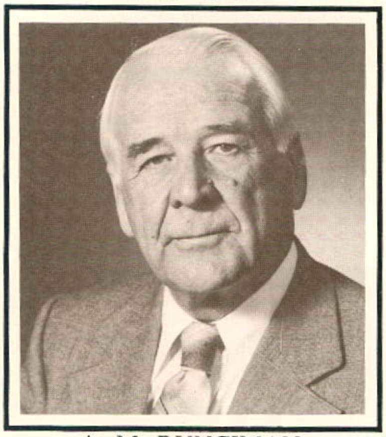
E. A. PARTRIDGE
1906 - 1907

HON. T. A. CRERAR
Grain Growers Grain Company
1907 - 1917
United Grain Growers
1917 - 1929

United Grain Growers

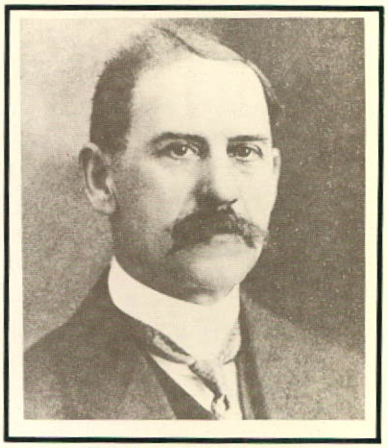
R. S. LAW
1930 - 1948

J. E. BROWNLEE, Q.C.
1948 - 1961



A. M. RUNCIMAN
1961 - 1981

Alberta Farmers Co-operative Elevator Company



W. J. TREGILLUS
1913 - 1914

C. RICE JONES
1914 - 1917

Territories called by the courtesy of each local executive for that purpose.

It is necessary in order to launch the company that half the capital stock should be subscribed and that ten per cent of such half should be paid in before the provisional directorate can be elected and charters applied for.

The smallest number of initial members possible will be one hundred and twenty five, each one of whom would require to take the limit of four shares in order that the half may be subscribed.

After incorporation each member may turn back three shares to the company to be disposed of with the remaining five hundred shares.

This would mean that one hundred and twenty-five men at least must attend the organization meeting and deposit one hundred dollars each (in some chartered bank) to the order of the provisional directors whom they would elect at such meeting.

The meeting would draft a constitution and by-laws and discuss the general plans to be pursued for the marketing of the crop of 1905.

A copy of this circular letter will be mailed to the President and Secretary of each sub-association of the Grain Growers of Manitoba and the Territories and these officers are respectfully requested to call a meeting for the purpose of reading and discussing the proposition, such meeting to be called for the evening of April 15th or as near thereto as possible.

Those who wish to join in the movement and who are prepared to attend an organization meeting to be held in Brandon as soon thereafter as the requisite number is secured, will as soon as possible communicate with the undersigned stating their intention to become promoters on the terms within proposed.

For the purpose of defraying the incidental expenses such as printing, postage, stationery, the leasing of a hall in Brandon, and the securing of the attendance of a lawyer to assist in drafting application for charter, etc., it is requested that each person desiring to be included among the promoters will send one dollar along with his statement of intention to take part in the organization of the Company.

Signed on behalf of the committee appointed by the members of the Central Manitoba Grain Growers' Association in convention assembled "to draft and present a scheme for the co-operative marketing of grain".

(Signed) "E. A. Partridge",
Sintaluta, Assa.

Someone sets the price of wheat;
Shall it be the organized farmers
Or a group of dealers and millers?
It all rests with yourselves.

WEEKLY FREE PRESS AND PRAIRIE FARMER, WINNIPEG, WEDNESDAY, SEPTEMBER 19, 1906.

(First advertisement of Grain Growers' Grain Co.)

SHIP YOUR GRAIN TO GRAIN GROWERS' GRAIN CO. Ltd.

A COMPANY OF FARMERS ORGANIZED TO HANDLE THE FARMERS' PRODUCE FOR THE FARMERS' PROFIT

We are Bonded and Licensed as Commission Merchants and Track Buyers.

We are prepared to handle your Wheat, Barley, Oats and Flax, and make liberal advances thereon upon receipt of Bills of Lading (Shipping Bills) and Inspections.

If you are not a shareholder, you ought to be, and no doubt soon will be.

In the meantime, ship your grain to us. We are in the business that all farmers may get a better price for their grain, better service from those who are handling it, and know better what prices ought to be.

You pay someone to handle your grain. Why not pay a company organized to help you, and which will welcome you into membership that its interests and yours may be identical?

Our company can't help helping you whether you help it or not, but it can help you much more if you help it to help you by helping it.

The greater the volume of our business, the greater the service that can be rendered without increasing the cost per bushel for handling.

Keep us in the field as competitors by sending us your grain. Isn't the competition of those who are interested in getting the best price they can for their own grain the best kind of competition?

We want you as a Shareholder. Shareholders share in the Dividends. Non-Shareholders do not.

Become a shareholder, but in the meantime ship your grain to us. Fill in your Bills consigning to Grain Growers' Grain Co., Ltd., at Fort William, if you are on the C.P.R.; Port Arthur, if on the C.N.R. Across the Bill write "Advise Grain Growers' Grain Co., Ltd., Winnipeg." that we may be able to look after your grading.

Write us and we will send shipping instructions and any further information or advice we may be able to give.

GRAIN GROWERS' GRAIN CO. Ltd. Room 5, Henderson Block WINNIPEG

United Grain Growers Limited

Associated Companies

United Oilseed Products Ltd.
Prince Rupert Grain Ltd.

Contents

The 75th Annual Report

In keeping with the historical perspectives of United Grain Growers, in this anniversary year, the cover of the annual report illustrates the progress of agriculture in Western Canada. A description of the numbered cover pictures is provided on the last page. Editorial cartoons throughout this annual report depict the issues that Prairie farmers felt were important in the first two years of your Company's history.

Seated (l to r): Allan Smith, W.J. Craddock, A.M. Runciman, T.M. Allen, L.F. Hehn, W.G. Morken. Standing (l to r): H.M. Dickson, J.G. Omichinski, Walter Van De Walle, Sam Sych, R.W. Piper, Roy Cusitar.

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.

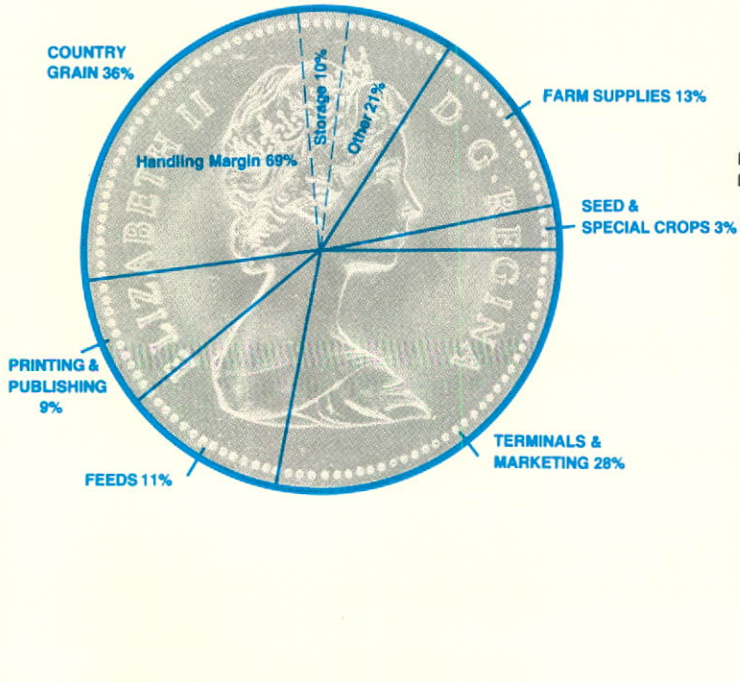
Auditors: Price Waterhouse

Head Office, Winnipeg, Canada

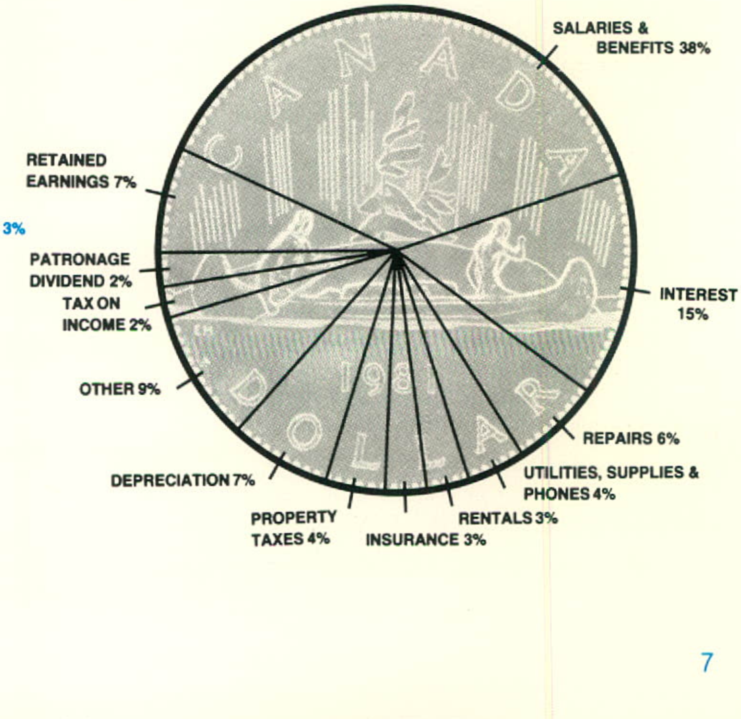
Highlights

Financial	**1981**	**1980**
Sales and revenue from services	$1,374,576,000	$1,247,611,000
Operating revenues	101,451,000	102,696,000
Earnings before patronage dividends and income tax	11,553,000	20,270,000
Net earnings	7,603,000	9,195,000
Working capital	28,136,000	30,678,000
Capital expenditures	16,565,000	11,656,000
Total investment in fixed assets	152,392,000	138,054,000
Accumulated depreciation on fixed assets	57,354,000	52,039,000
Paid-up share capital	17,320,000	14,930,000
Shareholders' equity	67,142,000	58,197,000
Cumulative total of shareholders' dividends	18,035,000	17,019,000
Cumulative total of patronage dividends, including interest thereon	58,082,000	55,675,000
Statistical		
Country handling — in tonnes	4,256,000	4,235,000
Elevator licensed storage capacities — in tonnes		
Country	1,507,000	1,552,000
Terminals	424,000	424,000
Number of country elevator manager-units (total elevators 553 in 1981 and 584 in 1980)	359	381
Number of shareholders	93,528	90,053
Number of shareholders' locals	291	294

TOTAL REVENUES
$101,451,000 = 100%
Your Company's Operating Revenue of $101,451,000 was earned this way

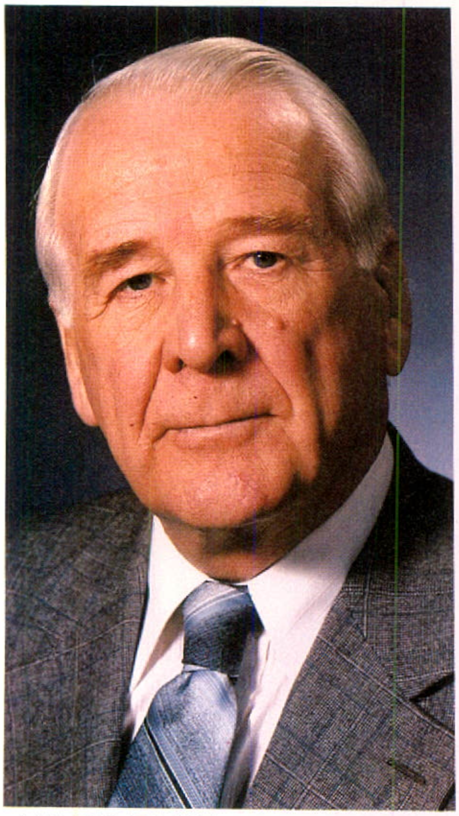


TOTAL DISTRIBUTIONS
$101,451,000
Your Company's Operating Revenue of $101,451,000 was distributed this way



Report of the President

on behalf of the Board of Directors



A.M. RUNCIMAN
President

The 75th anniversary year of United Grain Growers was a satisfactory one, despite losses by two divisions and reduced earnings by an associated company as a result of the commodity market slump last December. Country grain handlings of 4.3 million tonnes were a record and farm supply sales exceeded last year's previous record by 35 per cent. Profits of $11.6 million* were the third best in history.

Despite record capital expenditures of $16.5 million, $5.5 million more than last year, and an increase in your company's investment in United Oilseed Products of $4 million, working capital decreased only $2.5 million. With $28.1 million in working capital, United Grain Growers indeed is in an enviable position to withstand reversals.

***Before patronage dividends and income tax.**

These are the key operating and financial results this past fiscal year.

- Profits in country elevator operations were a record $9 million, well up from last year's previous record $6.9 million. Grain handlings through country elevators of 4.3 million tonnes in the 1981 fiscal year were slightly up from the previous year. However, profits from grain handling were down somewhat due to lower margins on open market grains, caused by the slower movement of these grains through the elevator system. Profits from farm supplies were up substantially due to sharply increased sales and improved margins.

- Terminal and grain marketing operations showed a loss of $1.9 million, down markedly from last year's record earnings of $7.2 million. Handlings at Thunder Bay and Vancouver of 3.1 million tonnes were up slightly from the previous year, but your just-modernized Vancouver terminal sustained a loss for the third straight year and Thunder Bay earnings were down due to higher wages and repair costs. Grain marketing losses, however, were responsible for the sharp decline in earnings: inadequate selling margins, high interest rates, and the drop in commodity prices last December were the main causes.

- The $58.3 million record feed sales by United Feeds were not matched by record earnings because of higher ingredient costs. The actual volume of feed sales was 235,000 tonnes, down 20,000 from the year before. Profits of $0.8 million compared to $1.4 million of the year previous.

- United Oilseed Products Limited (UOPL) weathered the sharply reduced crushing margins associated with the commodity crisis and had a successful year, with earnings of $3 million. UGG's share of this associated company's earnings was $1.5 million.

- Seed sales this past fiscal year were modestly greater and profits about the same as the previous year's $0.3 million.

- Publishing and printing profits of Public Press in the 1981 fiscal year fell to $0.4 million from the $1 million of the year before. The printing division sustained losses due to high start-up costs with its new Solna press and the extremely slim margins in the competitive printing business. Record amounts of advertising in Country Guide and Cattlemen increased the profits of the publishing operations slightly.

- In its second full year of business, special crops operations, which handles sunflowers, lentils, corn, buckwheat and fababeans, sustained a loss. Sunflower prices never recovered from last winter's price decline and your company had a large inventory of stocks that couldn't be protected by hedging.

As United Grain Growers steps into the last quarter of its first century, the short run outlook appears bright indeed, with a record crop in the bins and record exports predicted. The directors of your company, however, are concerned about problems, brought on by inflation and high interest rates, that dim prospects in the years ahead.

Inflation is an increase in the quantity of money brought on by government deficit spending. Canada's national debt is now $83 billion and $10 billion is needed annually just to service that debt.

The impact of inflation is first seen by higher prices, since the dollar has been diluted by an increase in the money supply. In the case of the elevator business, inflation is so high it doesn't allow the creation of sufficient funds to replace depreciating assets at current tariffs. This lack of capital is occurring, despite real productivity gains in the form of record country handlings and farm supply sales.

During 1980, Prairie farmers produced 33.8 million tonnes of grains and oilseeds. This compared to 31.3 million tonnes produced the previous year but down substantially from the near-record 37.6 million tonnes harvested in 1978. The dry spring conditions in Manitoba and Saskatchewan and poor germination resulted in a greater-than-normal amount of reseeding and plowing-under of poorly developed crops.

Exports of Prairie grains and oilseeds during 1980-81 were 21.8 million tonnes. This was down slightly from the record level of 22.3 million tonnes achieved the previous year. Only durum wheat and rye posted new high export levels. Wheat exports of 13.5 million tonnes exceeded those of 1979-80 by two per cent and were close to the record volume of 13.9 million tonnes achieved in 1965-66. The main customers were the USSR, Peoples Republic of China, United Kingdom and Japan. These accounted for nearly 70 per cent of wheat exports. Flour exports were 632,000 tonnes, up 18,000 tonnes from the previous year.

Exports of durum wheat amounted to 2.1 million tonnes or seven per cent more than the record high established the previous year. The USSR was the major importer. Other customers were Algeria and Italy.

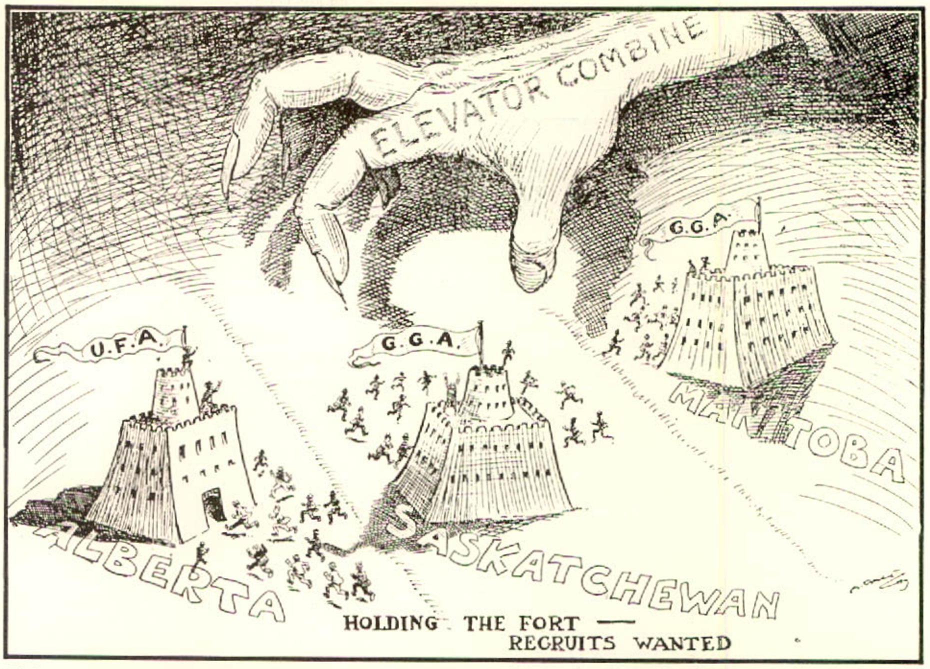
Oat clearances of 44,000 tonnes were down substantially from 1979-80 when 101,000 tonnes were exported. Importers of oats included Poland, Cuba and the United States.

Barley exports of 3.2 million tonnes reflected a decrease from the previous crop year of 3.8 million tonnes. The USSR was the biggest importer. Other principal customers were Japan, Italy and Israel.

Exports of rye were a record 446,000 tonnes. This was four per cent more than the previous high established in 1953-54. Again, the USSR was the largest importer, with 405,000 tonnes.

Canadian flaxseed exports of 519,000 tonnes represented a 16 per cent increase over the previous year. The largest customers were West Germany, the Netherlands and Japan.

Exports of 1.4 million tonnes of rapeseed were a substantial decrease from the previous crop year's record high of 1.7 million tonnes. Japan remained the principal market.



This cartoon entreats grain growers to join The United Farmers of Alberta, and the Grain Grower Associations of Saskatchewan and Manitoba, in order to organize and fight against the elevator combine that dictated grades and prices to farmers.

Inflation is taking its toll on Prairie farmers' real net income. Taking inflation into account, earnings in 1980 and 1981 are the third and fourth worst since 1971. Revised statistics for 1980 show realized gross income was up \$0.632 billion, while expenses rose \$0.766 billion. Therefore, realized net income dropped from \$2.015 billion in 1979 to \$1.881 billion in 1980. On a deflated-dollar basis, income on the Prairies dropped from \$1.054 billion in 1979 to \$0.895 billion in 1980.

Early estimates by United Grain Growers for 1981 show gross income of Prairie farmers will increase about \$1.409 billion while costs are up \$1.056 billion. Therefore, realized net income for 1981 will be up \$0.354 billion compared to 1980. However, due to record high inflation in 1981, farm income in deflated dollars was \$0.908 billion. As shown in Table 1, that was up only \$0.013 billion from 1980.

In 1980, costs rose by 14 to 20 per cent in several categories of farm inputs. For example, from 1979 to 1980, rent went up 18 per cent, interest costs rose 20 per cent, machinery costs climbed 14 per cent, and fertilizer costs rose by 16 per cent.

From 1980 to 1981, the general increase in costs has been 17.6 per cent, while income is expected to be up 18 per cent. The 1981 calendar year started with a \$0.730 billion final payment, reflecting buoyant grain sales in the 1979-80 crop year. Next, came an interim payment of \$0.487 billion. Prairie farmers have received about \$0.068 billion from the federal government as compensation for lost grain sales due to the embargo against the Soviet Union.

Farm income in 1981 varies from province to province. Realized farm incomes rose 9, 19 and 20 per cent in Manitoba, Saskatchewan and Alberta. While Alberta farmers delivered from their bumper 1980 crop at good prices in early 1981, Manitoba farmers' income dropped due to a poor 1980 harvest. Saskatchewan

TABLE 1 — **Farm Net Income for the Prairie Provinces (1970 - 1981)**
('000' of dollars)

Year	A Cash receipts	B Income in kind	C Supple-mentary payments	D Realized gross income (A+B+C)	E Operating and deprec.	F Realized net income (D-E)	G CPI	H Deflated net income (F/G)
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	7,165,766	88,249	0	7,254,015	5,238,568	2,015,447	191.2	1,054,104
1980	7,797,637	88,117	0	7,885,754	6,004,426	1,881,328	210.0	895,870
1981*	9,205,000	90,000	0	9,295,000	7,060,000	2,235,000	246.0	908,535

*1981 incomes and expenses are estimates based on several criteria. In general, compared to 1980, grain prices and deliveries were down. Beef and hog prices were down, but some hog producers received stabilization payments. Grain carryover into the 1981-82 crop year was very low.

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.

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, 1981; CONSUMER PRICE INDEX, 62-001.* Figures are totals for Manitoba, Saskatchewan and Alberta.

farmers kept up with costs by delivering grain from inventory.

The 1981 crop remains largely unsold and stored on the farm. Three months into the crop year, some farmers were finally able to deliver to their first quota. Initial wheat prices, however, are $20 a tonne below those of the last crop year.

Relatively weak feed grain prices in 1981 will lower production costs for livestock producers, but at the expense of income from cash grain sales. Feed grain prices tilted downward with expectations of a record 8-billion bushel U.S. corn crop in early summer. Added to a good crop of U.S. winter wheat and U.S. and Canadian spring wheat, prospects are for generally depressed feed grain prices in North America over the current crop year and probably into the next.

Cattlemen and hog producers in 1981 were caught between depressed meat prices and rising costs. Hog producers received stabilization payments to offset low prices, which relieved their cash flow shortage slightly. Other Prairie livestock producers have had to get by on their own resources.

Table 1 gives an historical overview of farm incomes on the Prairies. The last three columns are the most revealing. They depict the impact of realized net income being divided by

TABLE 2 — Operating Expenses and Depreciation Charges for the Prairie Provinces (1970 - 1980)
('000' of dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Taxes[1].......	66,810	67,979	65,025	63,066	65,133	76,900	88,614	95,480	103,407	109,332	121,306
Gross farm rent[2]........	71,242	83,600	89,182	159,749	158,179	187,738	212,728	226,906	271,191	338,738	402,282
Wages to farm labour..	83,783	86,388	92,318	112,298	134,136	163,328	175,460	188,154	198,876	223,231	245,863
Interest on debt[3].....	133,701	132,943	158,219	170,048	243,555	274,357	349,037	368,918	466,973	679,253	818,632
Total machinery expenses.....	309,397	339,513	375,337	439,870	539,630	598,831	668,925	726,874	802,825	887,000	1,013,305
Petroleum products[4]...	150,200	156,273	164,873	182,174	216,741	239,072	289,611	332,006	370,734	419,809	493,073
Repairs and other[5]......	159,197	183,240	210,464	257,696	322,889	359,759	379,314	394,868	432,091	467,191	520,232
Fertilizer and lime.....	40,901	57,338	66,820	91,435	135,476	215,798	229,020	249,831	345,329	455,659	528,346
Other crop expenses[6]....	55,385	59,239	68,878	85,810	127,700	157,482	174,300	198,477	264,251	337,688	379,718
Feed[7]........	83,727	92,190	106,814	168,611	239,535	231,797	249,646	260,865	243,078	313,734	386,086
Other livestock expenses[8]....	17,667	40,572	60,136	69,772	84,423	78,403	94,960	109,948	172,309	252,388	241,454
Repairs to buildings....	25,813	30,585	38,319	48,013	63,941	74,609	87,763	73,445	79,717	86,614	90,452
Electricity and telephone....	48,405	51,813	55,237	59,506	63,841	70,617	80,268	91,940	102,496	114,704	116,230
Miscellaneous.	64,279	92,850	107,197	117,329	135,235	133,818	212,410	203,940	217,418	333,433	386,656
Total operating expenses.....	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	4,131,774	4,730,330
Depreciation on buildings[9].	32,583	31,783	34,685	42,076	54,426	69,084	81,502	84,450	92,627	117,210	143,347
Depreciation on machinery[9]	284,166	273,940	285,943	313,720	409,965	561,178	700,054	729,897	877,674	989,584	1,130,749
Total operating and deprec. .	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	5,238,568	6,004,426

[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.

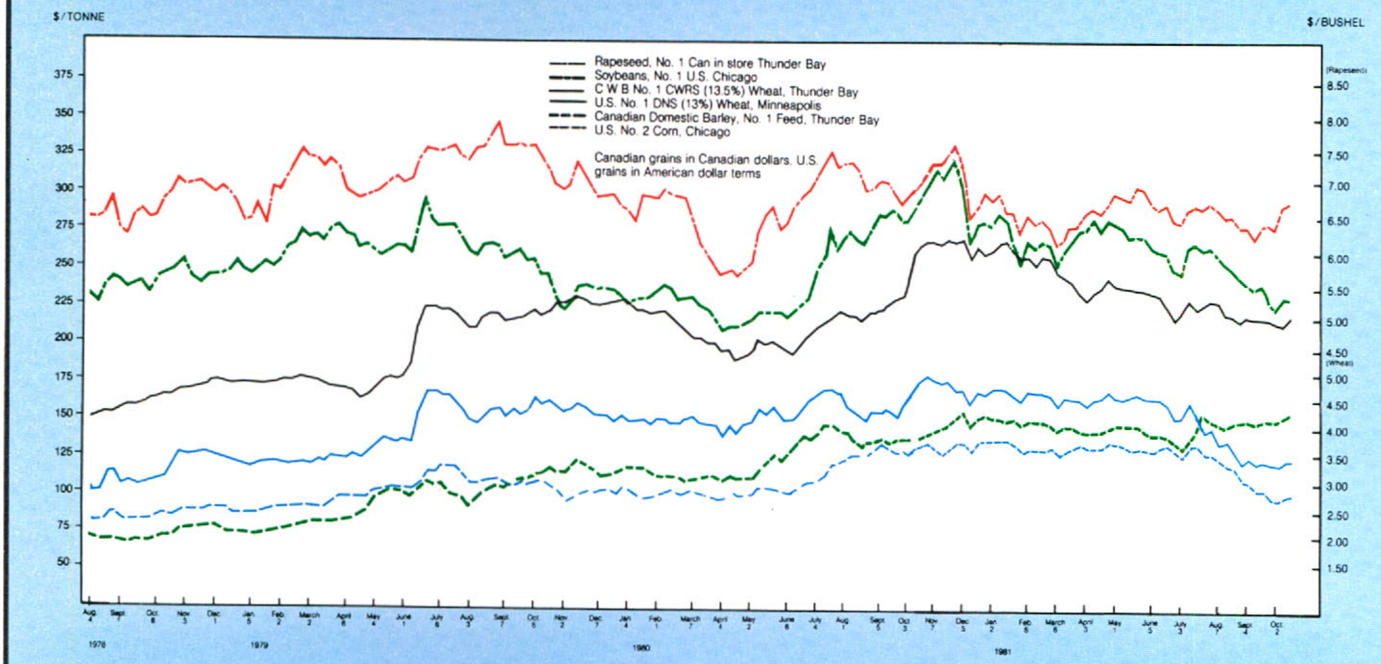
SOURCE: Statistics Canada, *FARM NET INCOME REFERENCE BOOK*, 1981.

the Consumer Price Index to give the deflated net income.

For example, in 1980, the $1.881 billion of realized net income is worth $0.895 billion in 1971 dollars. That means the 1980 and 1981 incomes had buying power just slightly above 1977, the worst income year in the Prairies since 1971.

Looking at the decade from 1971 to 1979, farmers generally enjoyed rising grain prices, good crops and record exports. Barley and wheat prices peaked in 1973 and then declined, and crop production dropped in the 1974-75 crop year. Supplementary payments were made

FIGURE 1 — Average Weekly North American Grain & Oilseed Prices



to beef and hog producers. Realized gross incomes climbed each year to 1975, then dipped in 1976 and 1977 as record crops depressed prices.

In 1976 and 1977, operating and depreciation costs rose faster than farm gate prices. The results were lower net incomes and generally a large drop in income in terms of 1971 dollars. Prices recovered in 1978, 1979, leading to good cash flows as costs lagged. Net income in today's and in 1971 dollars climbed.

Increasing input costs have been a major concern to Prairie farmers. Table 2 shows a consistent climb in farm production costs since 1970. Costs increased from 13 to 16 per cent most years, except in the high-inflation years of 1973 and 1974 when costs rose 23.5 and 25.9 per cent.

Several factors have affected certain expense items. Gross farm rents have followed the trend of land prices. Interest costs have been influenced by both the size of farm debt and the rate of interest. Declining interest rates and shrinking credit caused interest costs to drop from 1969 to 1971. Since then, with higher rates on more debt, interest costs have escalated. Interest costs have always been second to total machinery expenses. However, the gap is closing as interest costs have risen even faster than rapidly rising machinery costs.

For instance, in 1979, interest costs were 45 per cent of total machinery expenses. In 1980, interest costs were about 81 per cent of the machinery costs. Those two expenses made up about 39 per cent of the cash costs for farmers in 1980.

Fertilizer costs are the third highest farm expense. With higher use and rising prices, the dollar value of fertilizer used has more than doubled from 1977 to 1980.

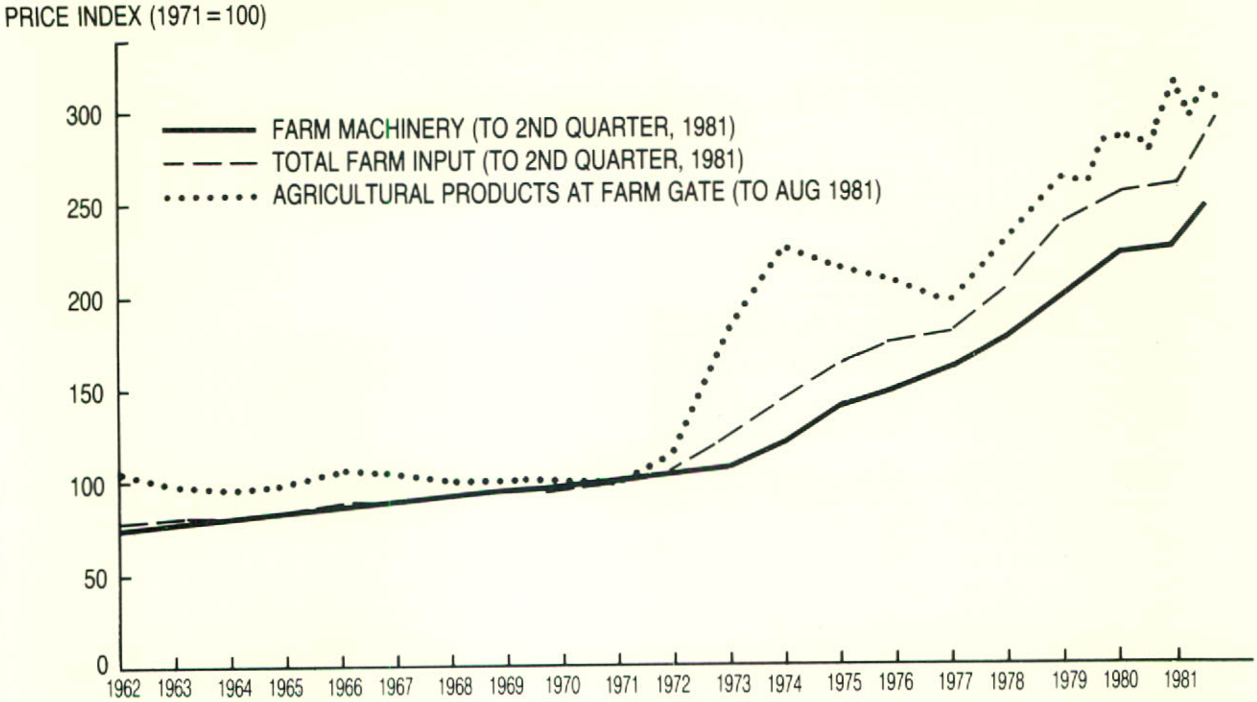
The trend toward larger machinery has raised the cost of depreciation but has reduced the impact of climbing fuel costs. The dollars spent on petroleum products rose 11, 13 and 17 per cent in 1978, 1979 and 1980 — well below the actual change in the price of fuel and gasoline. Rising energy costs will continue to plague farmers through increasing fertilizer, herbicide and fuel costs.

As farm costs rose, not all Prairie farmers have enjoyed the cushion of rising farm prices and a good crop. Some areas in each province harvested poor crops due to drought. An interruption in the cash flow compounds the financial problem of any farmer. However, the established farmer is not affected as much by a poor crop as is the expanding and the beginning farmer.

Those two categories of farmers are bearing most of the brunt of the high interest costs, as they are borrowing more and more dollars to keep up with rising costs. Unfortunately, not all will survive. Some beginning and smaller farmers are selling out, while others are renting out their land at very attractive rates. The expanding farmers are faced with cutting back credit, by buying less or selling off highly financed assets.

Statistics from Prairie lenders show

FIGURE 2 — Annual Price Indexes, Western Canada 1962-81



the per cent change in equity of farmers has remained the same over the last few years. However, two equity levels are becoming more evident. The equity in the farm industry is at 85, 83 and 90 per cent for farmers in Manitoba, Saskatchewan and Alberta. The equity for the newer and expanding farmers has remained at 46, 57 and 55 per cent in Manitoba, Saskatchewan and Alberta.

Figure 2 shows how the prices farmers receive for commodities compared to the prices they pay for goods. Generally, prices at the farm gate have kept ahead of the total farm input costs, but the chart does not reflect crop yields and total incomes. The gap has been narrowing from 1979 as prices paid climbed faster than prices received. Projected realized income and deflated income shown in Table 1 confirm the gap is shrinking further in 1981 as grain prices dropped, livestock prices remained level, and costs rose.

Times haven't changed much. As this cartoon illustrates, farmers tend to be considerably more important to the politician *before* the election than after.

The caption under this cartoon read: "The goat in the diagram gets his pointers from the local grain buyers instead of from the "Grain Growers' Association," which he doesn't think amounts to much. He doesn't ship to the Grain Growers' Grain Co., preferring to patronize the elevator owners. He always turns his back when the operator is weighing his load. He sells his bit of stored wheat at a cent or so above street prices, and when his car comes, the elevator man whom he has appointed as his agent, fills it with the Elevator Co.'s wheat. He doesn't take shares in the Grain Growers' Grain Co. because the elevator man advised him not to."

Operations Review

Elevator Operations

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

Country Elevators

United Grain Growers operated country elevators at 74 points in Manitoba, 148 in Saskatchewan, 140 in Alberta and 3 in British Columbia during the 1981 fiscal year.

The total capacity of the UGG country system, as licensed by the Canadian Grain Commission, is 1.51 million tonnes (wheat equivalent 55.4 million bushels).

Capital expenditures in country operations amounted to $9.8 million this past year compared to $7.4 million the year before. Major expenditures on projects were elevator replacements $4.5 million; major renovations $1.8 million; annexes and bins $0.5 million; farm supply facilities $1.9 million; and miscellaneous projects $0.6 million.**

New elevators were completed at Morden, Manitoba, at Simpson and Lake Lenore in Saskatchewan, and at Hussar, Alberta. An elevator was relocated from Gwynne to Calmar, Alberta. New elevators are presently under construction at High Prairie and Nampa, Alberta, Medora, Manitoba and Arborfield, Harptree, and Melfort, Saskatchewan. Additional storage was added at Petrel, Manitoba, at Francis, Saskatchewan and at Lougheed and Wimborne in Alberta. Major renovations to elevators were completed at Markinch, Wynyard, Ceylon and Congress, in Saskatchewan. Large scales were installed in Watson, Saskatchewan, Fairview, Gibbons, Milk River and Barons in Alberta; and at Oakville, Manitoba. Major renovations are presently being made at Deloraine, Manitoba and Prud'Homme, Saskatchewan. A second leg was installed in the elevator at Plum Coulee, Manitoba and a high capacity leg to replace the present one at Gilbert Plains, Manitoba.

Your company's construction program has been accelerated as a result of an increased allocation of funds. Invasion of the Melfort market is the beginning of the program referred to in the report to shareholders last year. Invasions allow your company to again service customers who have been lost by previous closures or trades. Economic pressure will continue to force the closure of smaller units creating the need for more centralization.

Construction costs continue to increase. The cost of a new composite elevator with 3,500 tonnes (140,000 bushels) capacity is now $900,000. A major overhaul of an existing elevator, which includes a new driveway, scale and office, costs as much as $300,000. New market costs are as much as $1.5 million for an elevator, farm supply facilities, land and trackage.

Handlings by United Grain Growers in the 1980-81 crop year were a record 4.3 million tonnes, just up from the previous year's 4.2 million. Deliveries were down in Manitoba as a result of the below-average crop in 1980 and congestion at major locations in the latter part of the crop year. The increased handlings were mainly in Alberta, where there was a good carryover of all grains, and car allocation was improved.

The bumper crop of 1981, combined with expected record exports, provides an excellent opportunity for United Grain Growers to exert its presence in the domestic and export markets. To ensure the company's growth, plans call for a continued expansion and improvement of country facilities in order to better service customers.

Grower deliveries were heavy throughout the fall and early winter of 1980 as a result of good quotas and improved car supply. As country stocks started to deplete in some parts of the Prairies concurrent with dry conditions in the spring, deliveries slackened until the prospects for the 1981 crop were better established. Deliveries were heavy toward the end of the crop year, and they resulted in serious congestion at many country elevators.

Continued improvement in car supply and export salės is necessary to enable managers to service their customers' requirements. United Grain Growers intends to increase its market penetration in grain handling and farm supply sales. This can be achieved by increased throughput of grain and major improvement in facilities and services provided. It will require large capital investments to construct modern elevators, renovate existing plants, and provide improved storage for grain and farm supplies. Also associated with this will be the refinement and expansion of company training programs.

United Grain Growers operated 365 manager units during the past year. By the end of the crop year, this was reduced to 359 units. Increasing operating costs will probably result in an additional 30 to 40 units being closed over the next decade. At most of these locations, volumes do not justify the necessary investment required to improve facilities to meet present and future needs.

Although major emphasis will continue to be given to the replacement and improvement of facilities where your company is represented, UGG

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

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

****Other country structures include over 1,000 annexes, 15 feed mills and a pet food plant, 18 anhydrous ammonia plants, 27 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.**

intends to continue its program of locating facilities at new major markets. This type of expansion is essential in order to offset station closures as new grain delivery patterns emerge in the future, and to enhance UGG's market share.

The medium-term plan is moving to a system of about 325 operating units with average handlings per unit of over 15,000 tonnes, ranging from 11,000 tonnes to 50,000 tonnes handling. Average annual farm supply sales are expected to exceed $250,000 per unit.

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

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 many cases a new site is required with considerable additional car spot. Costs will vary from $600,000 to more than $1 million, depending on the requirement. A program to build three or four of these elevators a year will require an annual capital allocation of $3 to $4 million. An accelerated program of five to six new elevators a year is desirable to improve service to customers.

Invasion points. To expand services to more farmers, several large-volume points have been identified where additional grain and farm supply facilities should be provided. It will result in your company being located at major market centres: Continuing consolidation of the elevator system in Western Canada is certain, and in order to capture its share of the grain business, UGG must be located at key grain centres. Invasion of these markets would contribute greatly to increased grain handlings and farm supply sales, and it will help provide the funds needed to maintain and modernize your entire country elevator system. An investment of up to $1.5 million is required at each of these locations to provide necessary facilities.

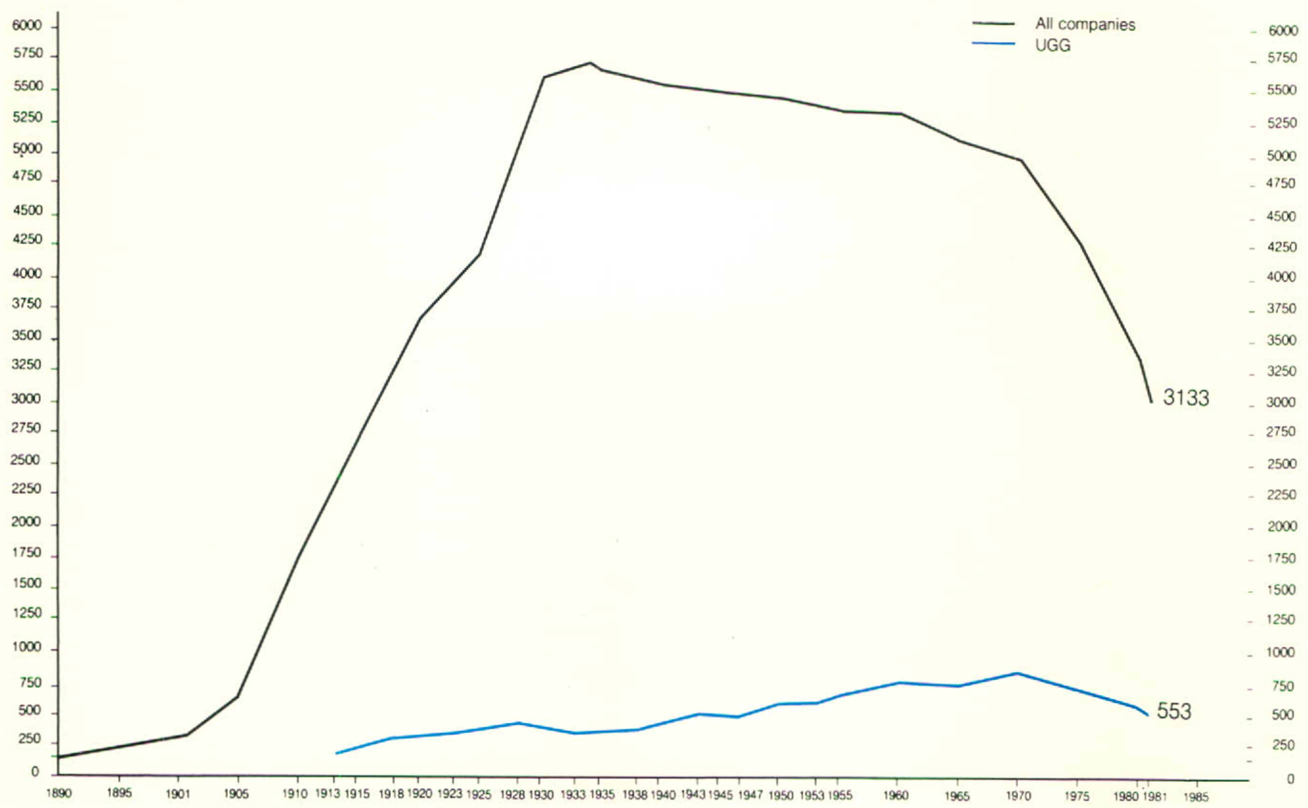
Table 3 — Cost per Tonne of Country Grain Handling through United Grain Growers

	1977-78	1978-79	1979-80	1980-81
Millions of Tonnes Handled	4.17	3.61	4.24	4.26
Elevator Costs per Tonne Handled				
DIRECT OPERATING EXPENSES				
Salaries — including assistant managers, casual help, overtime, bonuses and benefits	$2.18	$2.68	$2.47	$2.76
Moving, travel, meetings	.03	.04	.04	.04
Repairs	.39	.64	.65	.63
Annex unloading	.04	.06	.05	.05
Insurance (grain and merchandise)	.06	.13	.15	.19
Heat, power and water	.12	.16	.14	.16
Postage, stationery and supplies	.02	.03	.04	.05
Phone, wire, telex	.04	.05	.04	.04
Bank charges	.05	.05	.04	.06
Interest on current operating funds	1.03	2.40	3.20	3.67
Miscellaneous	.06	.06	.06	.07
	4.02	6.30	6.88	7.72
	58%	63%	67%	68%
DIRECT FIXED EXPENSES				
Property rentals	.05	.06	.05	.05
Building insurance	.06	.19	.18	.20
Taxes	.41	.44	.54	.54
Interest on capital investment	.26	.46	.28	.33
Depreciation	.40	.48	.47	.51
	1.18	1.63	1.52	1.63
	17%	16%	15%	15%
Administration and overhead	1.75	2.06	1.83	1.96
	25%	21%	18%	17%
TOTAL COST	$6.95	$9.99	$10.23	$11.31
	100%	100%	100%	100%

Elevator capacity. More capacity is needed to improve operations at many permanent locations. Obsolete facilities at some of these stations have to be replaced to improve efficiency. The type and cost of added storage can vary considerably. In some high-volume stations where a second leg is required, a cribbed annex with 2,800-tonne capacity and an elevating leg will cost about $600,000. Similar capacity in steel bins with drag conveyors can be constructed for about half the cost. A continuing program involving annual expenditures of $1.5 million would allow building more capacity at as many as six locations per year.

Major elevator renovations. Where existing elevators are in fairly good condition, renovation of these plants can be economical. Improvements may be quite extensive and they always include replacement of the driveway and scale. Costs will vary from $100,000 to $350,000 depending

FIGURE 3 —Number of Elevators in Western Canada



Source: Canadian Grain Commission — *"GRAIN ELEVATORS IN CANADA."*

on the extent of improvements. Upgrading of receiving scales will be necessary at about 100 locations over the next ten years.

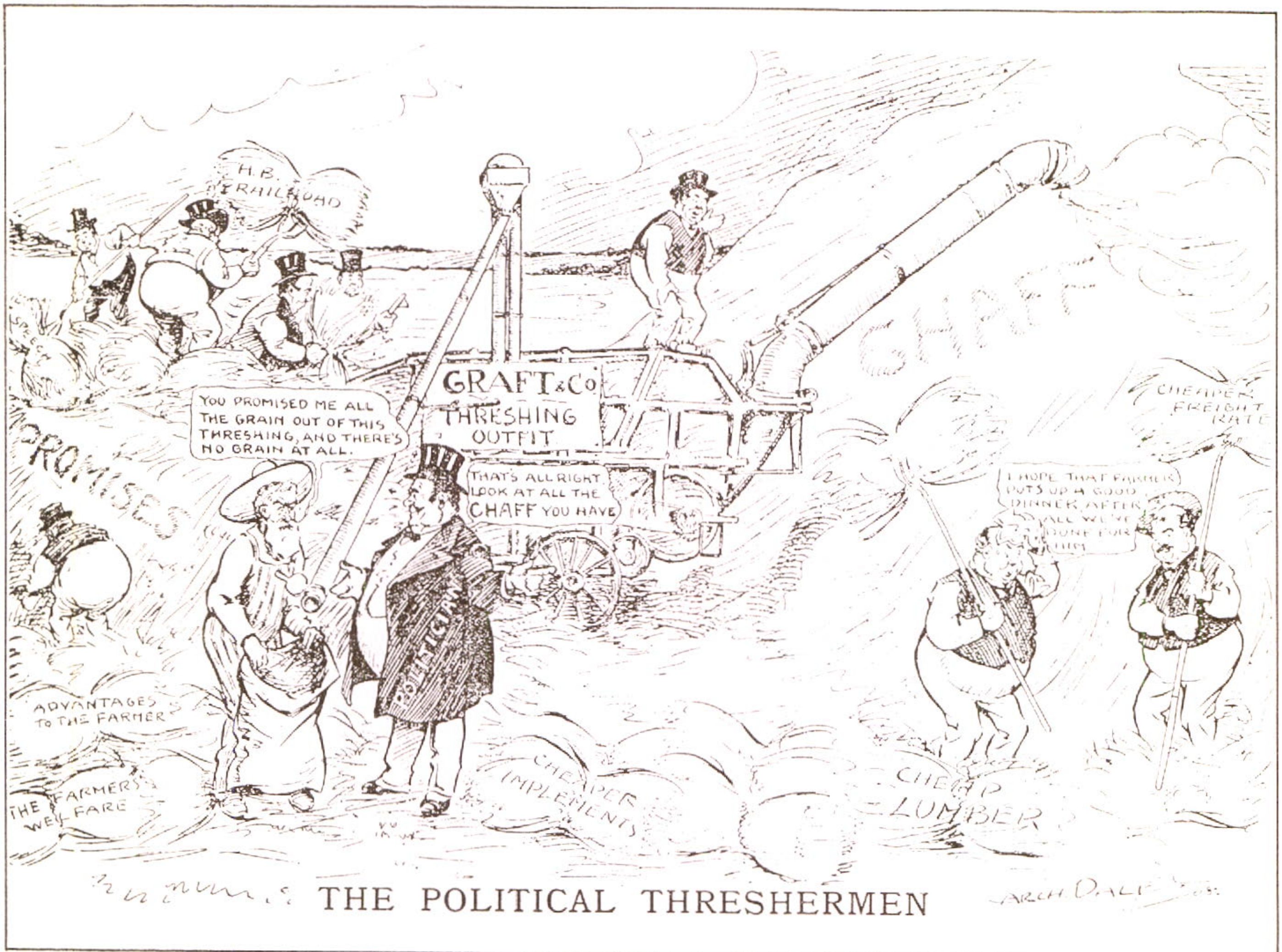
Maintenance and repair. Some $2.5 to $3 million is spent each year on maintenance and repair of existing facilities. With the larger volumes of grain being handled through these elevators, increasing maintenance is required to legs, scales, cleaners, bins and other parts of the plant. To preserve and improve the exterior appearance of elevators, over $500,000 was spent on the painting program last year. Fifty-five units were painted: 9 in Manitoba, 15 in Saskatchewan and 31 in Alberta and British Columbia. All new facilities are being covered with metal siding which will not require painting.

Dust equipment. The company is continuing its rapid program of installation of dust collection equipment in country elevators. When approved installations on this year's program have been completed, 281 elevators will be equipped. At some locations, Airstream helmets are being supplied to managers where dust collectors are not installed. When the project is complete, close to $6 million will have been spent on dust collection equipment in country elevators.

Country dwellings. There are now reasonably good dwellings at most permanent locations. New houses 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 houses. An additional program involving annual expenditures of $150,000, in addition to the amount received from sales, would satisfy the requirement for new or improved dwellings.

Country warehouses. Most permanent locations have warehouse facilities for storing bagged fertilizer, twine, seed and chemicals. Where these are provided, the cost runs from $30,000 to $60,000. In many cases, these sheds for chemicals and twine are attached to the office when construction of a new driveway is undertaken.

Bulk fertilizer storage. Bulk blending plants are being built at high-volume locations. Thirteen of these plants were completed during the 1981 fiscal year. Cost of construction, including necessary equipment, is between $175,000 and $200,000. An ongoing program to construct 6 or 7 plants per year will cost $1,250,000 annually.



The emptiness of the politician's promises were discerned by the prairie grain growers early in this century. Low freight rates, tariff-free machinery, competitive labour prices and a railroad to the Hudson Bay were important issues to farmers.

Anhydrous ammonia. The use of anhydrous ammonia has increased substantially in recent years. Lack of supplies has limited market growth but with increased product expected in future years, UGG intends to expand the number of units handling NH_3. The cost of providing the necessary tanks and equipment is in excess of $225,000 per unit. United Grain Growers presently has 18 locations where anhydrous ammonia is available.

Grain market services. United Grain Growers continues to provide pricing services on open market grains to customers through the use of forward pricing contracts, called Deferred Delivery Contracts. These contracts are available throughout the year on the six major grains.

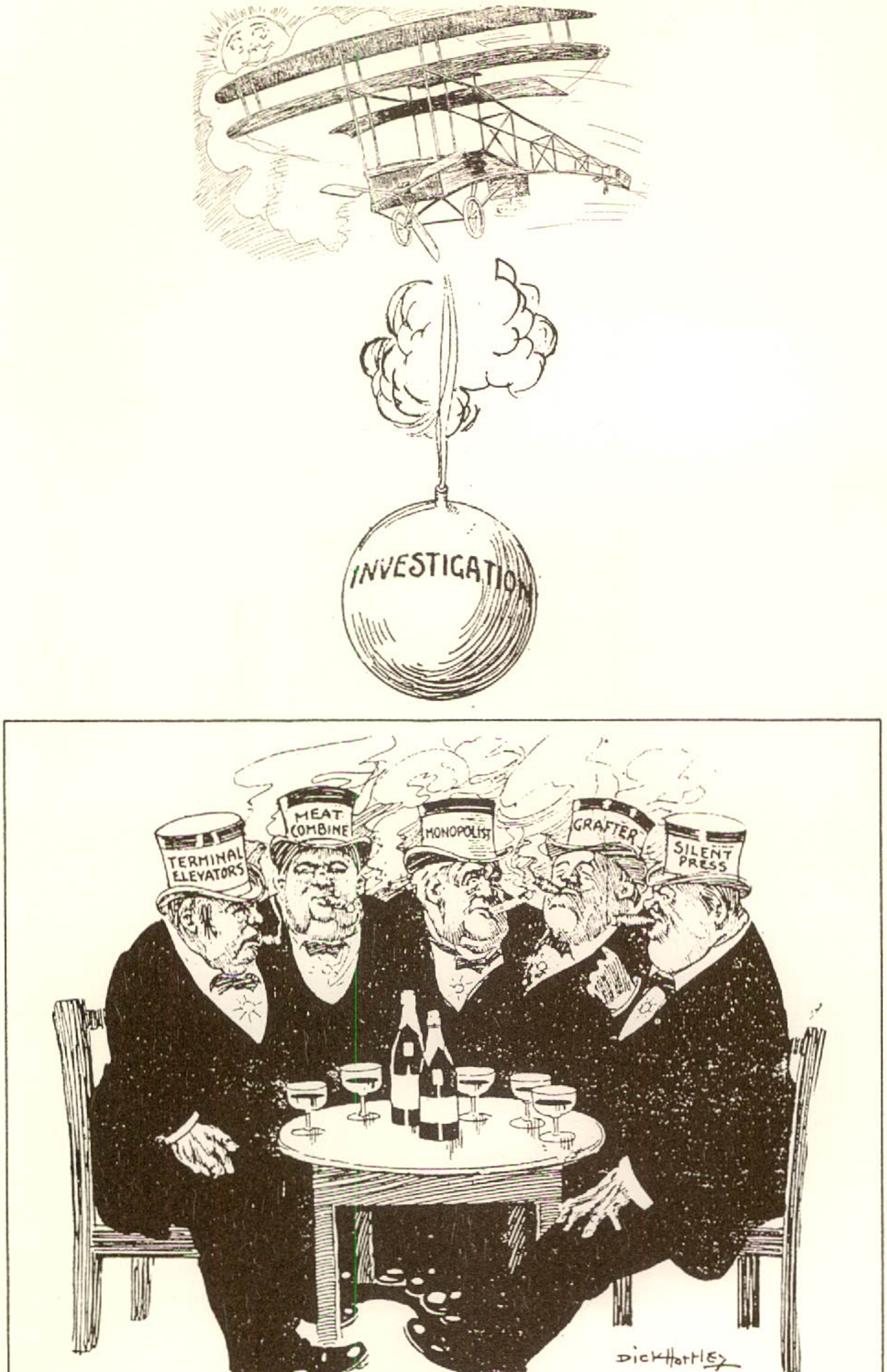
Another developing market service is with grain corn. The growth of grain corn production on the Prairies, particularly in southern Manitoba, has been very significant in the past few years. UGG currently provides market services for corn at seven stations in Manitoba. Prices are provided daily. The major emphasis in the marketing of corn is to maintain a quality product. The company intends to expand services in the marketing of good quality corn.

Farm Supplies Operations

Record-setting sales in the last quarter of the 1981 fiscal year resulted in a 35 per cent increase in sales over the previous year. Chemical sales posted a strong recovery after declining during the drought-stricken spraying season in 1980.

Poor harvest conditions and a short crop over the eastern Prairies restricted sales during the 1980-81 fall and winter. But new records were established in each of the last four months of the crop year as most products, except for a few local shortages, were in reasonable supply.

Fertilizer. Fall sales of fertilizer were disappointing because of the late 1980 harvest over much of the Prairies. Although spring sales were good in



LET IT DROP.

The United States government propose using the aeroplane for military purposes by dropping high-power explosives from the machine whilst it is in rapid motion. — News Item.

This scheme might be worked out nearer home to good advantage, as shown above.

Farmers in the early days did not trust what happened to their grain at terminal elevators and believed packing companies fixed meat prices. They felt newspapers too often conveniently ignored wrongdoings to farmers.

Alberta and in the northern half of Saskatchewan, sales declined in eastern Saskatchewan and Manitoba with total fertilizer demand being down an estimated 15 per cent from the year earlier. Anhydrous ammonia, however, moved well. With the decreased use of fertilizer in Manitoba, supplies were adequate to meet demand. The year ended with total volume sales for your company at about the same level as a year ago.

With increasing energy prices, labor, and shipping costs, the outlook is for increased fertilizer prices again this year. All grades of fertilizer are in adequate supply but if the industry experiences any shortages later this year it will likely be 46-0-0 (urea) and 82-0-0 (anhydrous ammonia). There will be some improvement in supplies as the expanded Simplot Chemical plant is expected to be in production before the end of 1981.

During the past year, 13 new bulk blending plants were completed. New plants are now operating at Fort Macleod, Bentley, St. Paul, and Manning in Alberta; Congress, Yellow Grass, Macklin, Porcupine Plain and Carrot River in Saskatchewan; and Belmont, Reston, Gilbert Plains, and Birch River in Manitoba. Similar bulk blending plants are planned for Manitou and Benito, Manitoba, Birch Hills, Brock, Aberdeen and Melfort in Saskatchewan, and Camrose, Castor, Ft. St. John and Athabasca in Alberta. In addition, your Company purchased and upgraded a bulk fertilizer plant at Killarney, Manitoba. Each plant will be equipped to apply and blend Avadex BW with 46-0-0 fertilizer.

A solution fertilizer plant was installed at Brunkild, Manitoba. A number of smooth-wall hoppered steel bins were erected during the past year and more are planned for this fiscal year.

Herbicides. Supplies of Avenge, Hoe-Grass, Mataven, Stampede CM, Blagal and Torch were in strong demand. Although inventories of Hoe-Grass were adequate, there were some local shortages of other weed chemicals.

There was an increase in demand for products registered for mixing with other herbicides, such as Hoe-Grass and Torch, Avenge with Brominal M, Torch or MCPA ester, and TCA and MCPA amine.

Sales of Afolan, Tordon 202C, DyVel, Banvel and other specialty chemicals for hard-to-kill weeds increased substantially while the sale of Weedone and Weedar products exceeded expectations.

Avadex BW sales regained the level of two years ago but the Treflan market suffered as rapeseed acreage declined significantly for the second year in a row.

Increased selling prices for all weed chemicals are expected. Products with basic ingredients manufactured in Europe, such as Hoe-Grass, should show smaller increases due to the strengthening of the Canadian dollar against European currency.

With few exceptions, all chemicals appear to be in good supply for next year. However, after a year which saw the phasing out of 2,4-D butyl esters, the withdrawal of TOK/RM and Cobex from the market, the future of a number of the herbicides farmers have come to depend on is uncertain.

Twine. Twine sales were up in all areas, except northern Alberta where sales were unusually high the previous year. The demand for synthetic twine increased significantly as synthetic twine prices were much less than sisal twine. It is expected this difference will narrow in 1982 as the major price increase appears to be on the synthetic products.

Other farm supplies. Sales of seed treatments were down again this year because of the substantial drop in rapeseed acreage for the second year in a row.

Sales of tarpaulins, paint, moisture meters and other miscellaneous items remained steady. Demand for the Gjesdal Five-in-One Cleaner exceeded supply throughout the year. The unit is performing up to expectations with some minor adjustments and modifications. This is a difficult market to forecast but it is expected sufficient units will be available to meet the demand.

Seed Operations

The 1981 fiscal year was one of the most difficult for the seed operations of your company. Even though total sales were nearly $700,000 higher than the record set the previous year, cost increases for labor, freight, taxes and interest kept net earnings down to the same level as 1980.

Creeping red fescue and yellow mustard have been the two largest dollar and volume items handled by your company. During the past fiscal year, the volume of both was down due to reduced production and markets. Sales of timothy, sweet clover and alfalfa, along with cereal grains, were up over the previous year. Demand for double-recleaned oats, required by racehorse owners, increased by 31 per cent.

Even though creeping red fescue was in short supply, prices did not improve because of the large crop of Kentucky blue grass produced in the United States. A quality crop of creeping red fescue was produced in 1981 with output estimated at over 12 million pounds. The price to growers this fall began at $1.43 per kilogram and has since been forced down to a current price of 99¢ per kilogram.

Multiplication of Fairway and Nordan crested wheatgrass and pubescent wheatgrass is planned for the Edmonton area. There is a demand for growers of tall, intermediate and slender wheat-grass.

The laboratory at your Edmonton seed plant continued to be of service, not only to seed customers and for purity testing, but also for germination tests for UGG customers.

In Manitoba and Saskatchewan, seed operations started off the year under threat of drought and the prospects of poor sales. However, sales of seed wheat were up 54 per cent over 1980. Columbus wheat is being multiplied and will be available as Certified seed for 1983 sales. Columbus appears to be a better variety than Benito from the standpoint of yield, stability of stand and seed size. Demand for both barley and oat seed remained strong.

The Manitoba and Saskatchewan seed plants once again cleaned a large amount of yellow, oriental and brown mustard, but shipments were down 13 per cent from the last fiscal year. Prices to growers last year were 14¢ per pound for 1 CW yellow. This year, the new crop prices are 18¢ for 1 CW yellow and 13¢ for brown and oriental.

The seed cleaning plant at Souris had contracted and cleaned El Grando and Verto peas. El Grando is a large yellow pea and is in demand as a soup pea in Quebec. Verto is a green whole pea that has a market in England and Europe. A small shipment of Neepawa wheat was made to China.

Your company is currently multiplying Columbus wheat, Musketeer fall rye, Norgold yellow blossom sweet clover, and Manor buckwheat. It also has five grain and five silage corns under test in Manitoba.

The seed division of United Grain Growers also packages the CanWest brand of dried cereals and birdseed for sale through food and department stores. In addition, it custom-packages cereals for private labels.

Special Crops Operations

In its second year of operation, the special crops division continued to expand into new areas and new crops. The new crops incorporated into the program include canary seed, confection sunflowers, pinto beans, and peas. The special crops operations of your Company is also looking at the possibility of contracting safflower in the 1981-82 crop year.

As was the case with your marketing operations and United Oilseed Products Limited, the special crops operation was not immune from the same price slump that started last November. The special crop business is risky at any time due to widely fluctuating prices and, in most cases, no method of hedging forward sales or purchases exists. Due to the small volume of trades, compared to those of other crops, forward sales must be made to ensure movement of the contract crop. The risk associated with special crops can only be spread by being diversified in the full range of crops, and by keeping the production base wide enough to ensure delivery of saleable product.

The general commodities market slump last December caught this division holding forward contracts. While all other commodities traded profitably, there were substantial losses in the sunflower trading account, and the special crops division itself.

Due to the optimistic outlook for cereal grains this spring, many farmers cut back their special crop acreage. This trend is expected to reverse in 1982, and growers already have been inquiring about the various programs for next season.

Virtually all of the crops your Company is involved with, either on a contract or non-contract basis, are in very good condition due to the fine harvest. In spite of the present negative markets, and the slight setback in acreage, United Grain Growers remains optimistic about the future growth of this line of business.

There has been tremendous interest in special crops this past fiscal year and a number of programs undertaken.

Special crops operations has developed its own symbol, which will be displayed on all letters, documents, and bags. A large percentage of the division's sales are sold in bags, and the logo will assist in the overall marketing program.

In 1982, the contracting system will operate about the same as the 1981 program. The farmer signs a production contract for special crops 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 has the option of pricing part of his production.

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

In the case of sunflowers, after delivery, a producer has two 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.

• *Sunflower* acreage in 1981 was down from last year, and a larger percentage of the acreage is uncommitted. The increase in non-contract acres is due to expanded marketing options available to growers by several new crushing plants recently opened in the United States. While the crusher market has been at a premium, it does not offer the option of total movement and cash in the fall that United Grain Growers can provide through a Thunder Bay shipment. It is certain that handling this commodity will become more and more competitive and margins will be extremely thin. To counteract a new type of rust and sunflower midge, United Grain Growers will be adding two new seed lines in 1982, which have demonstrated resistance to these pests. In 1981, the special crops division expanded its seed testing program, and is the first company to establish a hybrid seed reproduction program in Canada. The acreage for 1982 will depend on market prices up to the time of seeding, but with the increased domestic demand, prices are expected to strengthen.

• *Lentil* acreage climbed to over 100,000 acres in 1981.

Your special crops division is one of the largest contractors of this crop, with acreage in all three Prairie Provinces. The yield and quality of the 1981 crop are excellent. Growers have expressed much interest in the new Laird variety. United Grain Growers has contracted about 15 per cent of this variety, and is awaiting results of marketings to date before expanding acreage. The initial payment for the 1981 Canada No. 1 crop is 18 cents per pound. Canada is seeking inroads into many of the foreign markets originally serviced by American lentil growers, so a slight increase is anticipated in this crop for 1982.

• *Fababean* markets remain poor, since Canada has had great difficulty competing with the United Kingdom on fababeans going into major markets in the Middle East. The rest of the 1980 crop moved to Egypt with growers receiving an initial payment of 8 cents per pound. Due to the poor marketing prospects and the low volume, UGG declined to contract fababeans this year, but will be in the market for non-contract crop should the opportunity arise.

• *Canary seed* contracts are attracting interest in all three Prairie Provinces. In 1981, yields were about average, and an initial payment in the range of 14 cents per pound is expected. United Grain Growers has secured sufficient seed stocks for a relatively large program in 1982.

• *Confection sunflower seeds* were all contracted and will be processed through the Morden facility. Yields and quality are good. The first 500 to 1,000 pounds per acre (a producer had the option between these two figures) have been locked in at 15 cents per pound, and the remaining portion will be purchased at market value at time of delivery.

• *Peas* were contracted on a limited acreage this first year, to gain handling and shipping experience. The seed division of UGG will process this crop, and co-ordinate it with the seed division's specialty pea program. The initial price is \$5 per bushel to UGG contract growers. Non-contract peas will be purchased on a spot price basis. A significant increase in volume of this crop is expected next year, since there is the possibility of moving into Saskatchewan, mainly to enter the trapper pea business.

• *Pinto beans* could become another important crop for Prairie farmers. Contracts were made on a limited acreage this year, to gain experience before expanding into the edible bean market. Pinto beans will likely be processed at the Winnipeg seed division.

• *Buckwheat* will be purchased on a spot basis only this year. Growers experienced no major production difficulties with the crop, and increasing interest is evident in both Mancan and Common.

• *Corn* acreage and volume has again increased dramatically, so it no longer falls into the smaller acreage of special crops. For that reason, corn has been turned over to the line operations to be handled like barley or any other feed grain.

• *Safflower* contracts are expected to be introduced on a trial basis for 1982.

Canada's Prosperity — and Its Foundation

Our farming forefathers were not loathe by any means to take full credit for Canada's booming prosperity in the early 1900s.

Terminal and Grain Marketing Operations

The grain handled by your company's terminals* this past year amounted to 3.0 million tonnes compared to the previous year's total of 3.1 million. This is the third-best terminal handling in the history of United Grain Growers. Due to heavy losses incurred by the marketing operations of UGG, however, this past year terminal and grain marketing operations sustained a loss of $1.9 million, down sharply from last year's earnings of $7.2 million.

Handlings through your two Thunder Bay terminals this past year totalled 2,058,000 tonnes, well under the 2,219,000 tonnes of the year previous, thus contributing to lower earnings.

Work commenced this past summer converting the No. 1 track at Elevator A from a box car dumper to a hopper car unloading facility. This $550,000 project is now complete. Throughput did not suffer since Elevator M had offsetting unloads. The new arrangement at Elevator A was needed since the ratio of hopper cars to box cars is now 50:50, thus requiring more unload flexibility.

Elevator A now has ideal flexibility. The No. 1 track handles only hopper cars; the No. 2 track is dumper-equipped for unloading box cars but can also unload one compartment of a hopper at a time onto the belt; the No. 3 track has double pits, one for hopper cars and one for box cars.

At Elevator M, a bin floor top and new trippers have been installed and these will eventually be radio-controlled. Further improvements at Elevator M are slated for automating the bin bottom gates and receiving pits. This project is expected to cost $7.5 million, of which $2.6 million will be spent this year and $4.9 as the next phase. Each phase is independent and the work will not impair operations.

The matter of management versus union control of computer operations to automate grain shipping at terminals became an issue this August during the latter stages of the Thunder Bay labour negotiations. The Cargill Grain Company's sophisticated management-operated computer, not yet in operation, forced the company to operate the plant from the control panel until refinements are complete. The union argued the control panel system is nothing more than centralized pushing of buttons and other motions normally carried out by union people.

The distinction between centralized control and computer control is complex but it starts when computers and micro computers are added to the control system and the system is programmed to automatically set machinery in motion to draw grains from bins as required. For example, the loading of vessels has always been the responsibility of the foreman and superintendent, both non-union personnel. They are responsible for producing the quality of grain called for on the shipping order. Such responsibilities are and must continue to be management functions.

The position was settled by agreement that panel operators will continue to be union people until a plant is fully automated and computer-controlled, at which time the computer operators will be classified as production supervisors and considered to be management.

The Vancouver terminal incurred a loss this year. However, two items of a non-recurring nature amounting to $1.1 million were involved, and without them the plant would have en-

*** 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.

joyed a profit. A weighover loss of $679,000 due to grade losses generated when converting from manual to centralized control was responsible for one loss, and a $420,000 expense for refurbishing concrete and the finish of the elevator was the other item.

Handlings at Vancouver this year of 1 million tonnes, while up only slightly over last year's 968,000 tonnes, represented an improvement of 1.7 per cent in UGG's percentage of handlings at Vancouver. During remodelling of the Vancouver elevator, handlings at one time were as low as 7.3 per cent but recovered to 11.9 per cent. Further recovery is looked for since the figures are still short of country origins to Vancouver in the nature of 15 per cent.

Looking at the current fiscal year, both Thunder Bay and Vancouver appear likely to set new throughput records. In spite of the two week strike at Thunder Bay, the combination of ample grain in country position, an accelerated fall movement, and a heavy, all-rail movement in the winter should overcome the shortfall this summer. Presuming the railroads can sustain a 3,000-car movement to Vancouver, UGG is hoping to handle a record 1.2 million tonnes through its Vancouver terminal this fiscal year.

The market collapse the first 10 days in December, 1980, brought on by high interest rates and slackening European demand due to a strengthening Canadian dollar vis-a-vis European currency, caused severe losses to the grain marketing operations of your company. When a company accumulates and sells grain it does so constantly, not in a tonne-by-tonne fashion to match order with order, and this exposes it to risks of price drops and increases.

Losses in marketing operations occurred for a number of reasons: substantial amounts of stock weren't fully hedged; expected European purchases dissipated when the value of European currency declined; margins between selling and buying prices weren't sufficient; and high interest costs added more than $1 million dollars to operating expenses over the previous year.

For some years your company has been very aggressive in flax exports and the marketing of feed grains to eastern Canada. This objective serves Prairie farmers very well but exposes their company to unacceptable risk. Accordingly, the directors of United Grain Growers have instructed management to reduce the percentage of grain sales into eastern Canada, to reduce its purchases of grains from other companies, to insist on adequate margins between selling and buying prices, and to refrain from extensive purchases or sales without adequate hedges.

The operations of the terminal division and grain marketing division have now been separated and each will operate as a distinct profit centre in order to assure more efficiency.

Feed Operations

United Feeds is the largest supplier of processed feeds in the Prairie provinces. In eight primary and seven grind-mix plants, it manufactures a complete line of Unifeed livestock and poultry feeds.

The 1981 fiscal year was a difficult one for your company's feed operation. The year started with strong grain and protein prices while cattle and hog prices remained depressed. Such conditions created a situation whereby some feeders shopped for feed on the basis of price alone. This resulted in extremely tough price competition and in lower margins than required to give a reasonable return on investment. Consequently, Unifeed's gross margin was down slightly from the previous year.

Other key cost increases that adversely affected returns were interest on working capital, salaries, heat and power, and truck operating costs.

United Feeds is the major Prairie processor of feed grains. During the past year it purchased and processed 164,500 tonnes of grain. About 65 per cent was bought directly from producers, 27 per cent from United Grain Growers, and the balance from other grain companies and dealers.

The new Lethbridge feed plant is nearly completed. Once finished, total processing operations will be switched to this plant to make production more efficient and to reduce overhead expenses. Other projects included:

- New steel tanks erected at the Edmonton plant to provide needed grain storage.
- An additional steam roller installed at the Olds plant.
- Sale of the Nose-Creek plant to a land developer. The machinery, steel bins and warehouse have been removed for use at other mills.

Grain prices increased steadily over the past crop year. The price of wheat ended up $31 per tonne higher at the end of the year than at the beginning. Oats and barley prices increased $25 and $20 per tonne over the same period. The prices for soya meal, canola meal and meat meal followed a similar trend. Soya meal was up $18 per tonne, canola meal up $15 per tonne, and meat mea $95 per tonne. This resulted in supplement prices increasing by about $40 and complete rations by $30 per tonne.

The supply of barley and oats was generally good and of high quality The supply of wheat however, became short in early spring when 3 CWRS wheat was in export demand and no longer available for feeding. This made it necessary for the company to buy higher quality wheat from producers which demanded a higher price.

In addition to manufacturing livestock and poultry feed, United Feeds also operates a pet food plant at Innisfail. It makes a dry extruded pet food sold under the Western Pet label. The plant also makes an extruded pig starter. Sales from the pet food plant were up 33 per cent over the previous year. During the past year automatic packaging machines were installed to package 8-, 10-, 16- and 20-kg bags. This has improved packaging and reduced labor costs. A 20 x 50-ft extension was added to the building to provide better office facilities and additional storage.

Public Press Operations

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

At the beginning of last fiscal year it was necessary for the publishing division to take a cautious view in estimating advertising revenue. A poor 1980 crop on the prairies caused some advertisers to reduce advertising expenditures. Consequently, during the first part of the year revenue was down. However, a new marketing approach launched early in the year, along with renewed agribusiness optimism, resulted in much improved advertising lineage and revenue the latter part of the year.

The postal strike that began June 29 had an adverse effect on your company's publishing operations. Subscription revenue was almost zero in the final month of the fiscal year and some advertising revenue was also lost. Arising from the strike settlement is an increase in postal rates, the full impact of which will be felt in the current fiscal year.

Country Guide, even with a slight reduction in circulation, continues to be the largest national monthly farm magazine. Subscribers, who have certain specific enterprises, also receive Hog Guide, Dairy Guide, Corn Soy Guide and Crops Guide.

This division also publishes Cattlemen. It continues to be Canada's leading beef publication and its circulation is at an all-time high, having topped 44,000 for the first time.

The printing division encountered severe difficulties over the past fiscal year. The new web press, scheduled to be in full production by December, did not become fully operational until May, resulting in a drop in sales.

Sales were also adversely affected by an extremely competitive market, caused by the downturn in the economy and the increased capacity of the printing industry.

With the new web press now fully operational, producing on a three-shift basis, results are expected to show improvement.

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 more recently with Prince Rupert Grain Ltd., in both of which United Grain Growers is a joint owner.

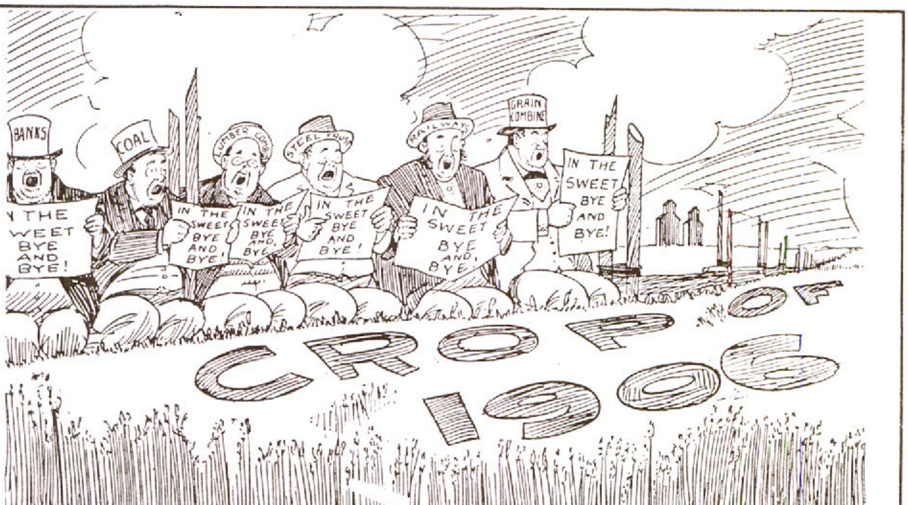
United Oilseed Products Ltd.

United Oilseed Products Ltd. (UOPL) was incorporated in 1973 with head office and crushing plant located at Lloydminster, Alberta. Until September, 1980 it was jointly owned by United Grain Growers (33⅓%), British Columbia Packers Limited (33⅓%), Mitsubishi Corporation (23⅓%), and The Nisshin Oil Mills Ltd. (10%). In September, 1980, the directors of United Grain Growers authorized the purchase of one-half the shares owned by British Columbia Packers Limited. This moved UGG from the position of one-third owner to one-half owner, with Mitsubishi Corporation now holding 35 per cent and The Nisshin Oil Mills Ltd. 15 per cent.

The plant, which began operations in 1975, accounts for about one-fifth of the capacity of the Canadian canola crushing industry.

UOPL continued profitable operations during the past fiscal year, but the level of earnings was down from the 1980 fiscal year. UOPL had net earnings of $3.0 million during the year, and United Grain Growers' share of this is one-half, or $1.5 million.

This associated company crushed a record 200,000 tonnes of seed during the past year. This increased throughput was the result of action taken to expand the capacity of the plant's



IN THIS WHEAT BYE AND BYE
After singing which "let us prey"—on the producer

Farmers at the time your company started into business, after their crop was made, felt like fat geese ready for the plucking by various interests that they felt "preyed" off them.

operation, which contributed noticeably to the financial performance of UOPL.

The 1980 canola crop, while substantially reduced from the two previous years, was large enough to meet both export and domestic crusher demand. Crushing margins remained relatively strong until the commodity market slumped in December, 1980. The early part of that month saw one of the biggest and sharpest downturns in prices in the history of the commodity markets. In a period of only ten days, oil and meal prices dropped 20 per cent, while rapeseed/canola dropped 10 per cent. This, of course, substantially reduced crushing margins to near the break-even level for the balance of the crop year. There were a number of factors that influenced the market this past year and in the current fiscal year.

Soon after the market drop in December, interest rates rose to unprecedented levels curbing demand in the domestic market. On the other hand, the high U.S. interest rates gave strength to the U.S. dollar compared to European currencies and this compounded the impact of the market decline. The sudden price drop led to even lower prices for North American commodities, yet prices of oilseeds and oilseed products increased dramatically for European importers because of the strength of the U.S. dollar. From January through to July, markets gradually weakened, ebbing lower month by month as it became apparent that there were good supplies of oilseeds and oilseed products to meet the world needs in light of the reduced demand.

The harvest of a record soybean crop in South America sustained lower prices to the end of the fiscal year and, in fact, relatively low prices have continued into the 1981-82 crop year.

Oilseed stocks worldwide rose as crushers of all kinds of oilseeds around the world cut back on processing because of poor margins. Towards the end of the fiscal year, it became evident oilseed production in 1981 would be increased, especially in the U.S. where soybean growers did not reduce their acreage and excellent growing conditions led to near record soybean and record corn output. This additional supply of world oilseeds for the current crop year, combined with a relatively stagnant demand, and a record 2 billion pounds of soybean oil stocks in the U.S. have kept prices at very low levels.

Problems with low crushing margins have been compounded by the amount of unpriced seed delivered by producers. The lower prices were unacceptable to farmers, especially when compared to the relatively strong cereal grain and oilseed prices of the past two years. Regardless of the reason, farmers did not price their seed either before or shortly after delivery. This made it necessary for UOPL to implement several new policies throughout the year to reduce its risk on this unpriced seed and to encourage pricing by farmers.

The demand for canola oil and meal remained strong compared to other oilseeds throughout the year even though prices were substantially lower.

Several unfavourable conditions are expected to lead to lower crushing margins and lower earnings in the 1981-82 fiscal year. The dramatic reduction in the 1981 canola acreage is expected to lead to reduced supplies even after considering the July 31, 1981, carryover. It is expected canola stocks will be tight the last half of this crop year and this could make Canadian canola seed overpriced relative to world oil and meal markets. If supplies indeed do become tight, exporters of seed to Japan will be able to outbid the domestic crusher since Japan is a premium market for Canadian canola seed. The overall result of tight canola supplies is expected to be substantially reduced crushing margins.

Other factors expected to negatively influence crushing margins are the large soybean oil stocks in the U.S. and this year's large soybean and corn output. High U.S. interest rates and the strong U.S. dollar continue to depress North American oilseed and oilseed product prices, yet prices to importers in their currencies remain high. This leads to reduced demand. The final outcome of the 1981 harvest in the USSR and the Soviets' import requirements are unknown factors that could have a major impact on price levels and crushing margins.

UOPL in conjunction with two other crushers negotiated a long-term sale of canola oil to Algeria and this, plus continued domestic and export demand for canola oil and canola meal, is expected to permit the plant to crush in excess of 200,000 tonnes.

It must be remembered that the world oilseed market and oilseed product market are very dynamic and can change quite quickly as was proven in December of 1980. UOPL's increased crushing capacity, coupled with other action taken over the past two years to reduce downtime and improve efficiency, should help to offset anticipated lower crushing margins in the 1981-82 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, Pioneer Grain Company, Limited, 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. An agreement between Prince Rupert Grain Ltd. and the National Harbors Board was finally reached in September, 1980.

Members of the consortium have until March, 1982 to decide whether to proceed or withdraw from the project. This should provide adequate time for detailed design and cost studies to be completed, permitting a careful analysis to precede the final decision. It is estimated that $22 million will have been spent on engineering, site clearing and grading by March, 1982. At the present time, total cost to completion is estimated at $260 million.

On October 22, 1981 the Government of Alberta agreed to finance 75 per cent of the project by the issue of First Mortgage Bonds and Participating Debentures.

During the past fiscal year to July 31, the old Prince Rupert terminal earned a profit of $2.1 million. UGG's share of this profit is approximately $0.3 million.

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 19 years in which it has been published, *The Grain Grower* has performed a useful farm management service to western agriculture. It is, however, an expensive publication to print, collate and mail and a 50 per cent increase in subscription charges has been introduced. If circulation holds or gains, publication of *The Grain Grower* will continue. Consideration, however, is being given to UGG providing only the information, for a fee, and placing the printing, collating and mailing with another company.

The Grain Grower's sister publication *Grainews* was started in 1975 as a grain marketing and rural affairs newspaper and has proven equally popular. Paid circulation is now 32,000, evidence that *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 in a special advertising section.

A related service, UGG Farmers Library was started in 1978. It specializes in the sale of books for farm families not usually available through customary sources.

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 Agricultural Conference.

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.

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

- 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 premium cost.

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. It was utilized to a high level by customers this past year.

Just over a year ago, 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.

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

A short history of UGG

The following is the text of the address A. M. Runciman, president of United Grain Growers, delivered to delegates at the 75th annual meeting, November 4, 1981.

It is most unusual for a past-president of United Grain Growers to be the speaker at the company's annual dinner. I believe it has happened only once before. That was in 1966 when the Honorable T. A. Crerar appeared in the role at the age of 90. He was president of your company from 1907 until 1929, so he waited 37 years for his invitation. I feel highly honored to have the opportunity just hours after leaving office this afternoon. I sincerely thank your directors for asking me to bring you a short account of the origin and development of your company — the first farmers' company in Western Canada.

When Senator Crerar spoke to annual meeting delegates on the same topic fifteen years ago, he did so as one who had taken part in the events he described. Many of the words he used to describe the spirit of the pioneers he led in their great adventure still linger in my memory.

For example, he said, "I stand before you tonight as a sort of relic of the past. All those who marched with me, or with whom I marched 60 years ago, have crossed the border line that divides our life on this earth and the shadows of eternity. Since I am a relic of the past, it may be of interest to the delegates here if I sketch briefly the conditions that existed in Western Canada years ago."

That remarkable man then proceeded to outline in spellbinding words the events of his early life and that of the pioneer settlers he knew so well. Only one who had lived the events he described could have reconstructed them so vividly. He then went on to tell of the totally unacceptable conditions in the grain marketing system of those days that eventually led to the founding of your company. It is my task tonight to review that story and tell you about the actual formation of the company, its early trials and tribulations, and its subsequent development.

I hope I can also create and leave with you a realization of the courage and determination of the founders as they struggled to overcome the intolerable problems facing them. I hope, too, that I can convey to you a sense of the dedication of these men to their cause and the spirit of independence and self-reliance with which they fought their battles. More of their attitude could be used as we try to overcome today's difficulties.

Because 1981 marks the 75th anniversary of its founding, United Grain Growers has a long history. In fact, its history almost exceeds living memory and details of the company's founding and growth are largely unknown to our younger members, let alone the general public.

Seventy-five years is also a long time in the agricultural history of Western Canada. It was only last year that Saskatchewan and Alberta marked the 75th anniversaries of their founding and we shared in the celebrations. This year we have observed UGG's 75th birthday in a quiet sort of way which has not been too costly. It was felt that a few new fertilizer sheds, or a new annex somewhere, would be better ways to spend money than on an elaborate program of celebration. But we have tried to make people more aware of what we are, where we came from and how we got here.

The story of the formation and development of the Grain Growers' Grain Company Limited, now called United Grain


UGG
1906 75 1981

Mac and Marge Runciman cutting UGG's 75th anniversary cake following his banquet address to delegates.

Growers Limited, and the history and development of farming on the Prairies are closely interwoven. The founding of the company was a direct result of the firm belief of pioneer farmers that the grain marketing system of the day was taking too large a share of the value of their grain and not getting the job done in an acceptable fashion. That problem arose because there was no other way to get their crops to buyers outside the Prairie region. The pioneers were the frustrated victims of a grain handling monopoly and a grain-transportation monopoly. These two interests worked hand-in-glove to dictate not only grain prices, grades and dockage, but to determine how the grain transportation and handling system should be designed and operated to their advantage.

For example, in order to achieve shorter turnaround times for their boxcars, the railways wanted country elevators built along their lines because grain could be handled much more quickly through elevators than was possible over loading platforms, the construction of which farmers were requesting.

The railways, therefore, made an agreement with the private grain companies, and there were many of them in those days, that they would be given the exclusive right to cars if they would build elevators to handle the grain. This created a monopoly for the elevator companies and they were quick to take advantage of it. This arrangement, in itself, was a great bone of contention with the farmers of Western Canada because it denied the farmer the right to load his own grain over the platform if he chose to do so. Naturally, these conditions created widespread discontent.

In 1900, the passing of the Manitoba Grain Act, the forerunner of the Canada Grain Act, provided some relief from these injustices. Although we take its protection very much for granted today the Canada Grain Act was a great charter for the pioneer farmers of Western Canada.

The Act also provided much-needed protection against unfair grading and dockage practices but, most importantly, the railways were required to supply cars to individual farmers and to provide loading platforms when requested by a group of farmers in a community.

While the passing of the Manitoba Grain Act provided some assistance in coping with the unacceptable conditions prevailing, it soon became widely accepted that if farmers were to enjoy the full fruits of their labors they must create their own grain marketing system.

The leader of the movement in that direction was E. A. Partridge, a strong-willed and outspoken farmer from Sintaluta, Saskatchewan, who supported his cause with vehement words at every opportunity. A few excerpts from the impassioned proposition he mailed to Prairie farmers in 1905 advocating the formation of a farmers' company provide some interesting insights on his thinking. The whole document is set out in the first two pages of this year's annual report. It makes interesting reading. In Partridge's words, "It is proposed to initiate the co-operative movement by organizing a joint stock company of 1,000 farmers with a capital of one-quarter of a million dollars divided into one thousand shares of $250 for the purpose of selling their principal produce, wheat, in the most economical manner and at the highest legitimate price to be obtained in the world's markets."

He went on to say, "The advance guard must be brave. Our forefathers shouldered their guns and risked their lives for freedom. We, their sons, will scarcely refuse to shoulder a little responsibility and risk a few dollars to perpetuate that blessing."

Such was the style of E. A. Partridge, the man from Sintaluta.

In the fall of 1904, some of the farmers around Sintaluta thought it would be a good idea to have one of their number go down to Winnipeg and scout around in grain trade circles. So they chipped in $5.00 apiece and handed $100.00 to Partridge who was selected to make the one-man investigation. On January 5, 1905, he arrived in the city with the return-half of his train ticket and what was left of the $100.00 after he paid his return fare. He figured the remaining money would last a month, but not at a high-priced hotel, so he located a boarding house and began his investigations. You can imagine how long his money would keep him going in this city today.

Partridge returned to Sintaluta more convinced than ever that farmers must form their own co-operative grain-marketing system. He effectively presented his case before a mass meeting in the Orange Hall in Sintaluta on January 27, 1906 and the meeting passed the following resolution unanimously:

"BE IT RESOLVED that we, the grain growers of Sintaluta, Saskatchewan, in mass meeting here assembled, heartily recommend the formation of a company wholly composed of farmers to be known as the Grain Growers' Grain Company with shares at $25 each and with a large enough issue of shares to include all western grain growers desirous of becoming members."

That meeting also set up an action committee with E. A. Partridge as Chairman. With enthusiasm born of conviction, Partridge and his committee went to work. Ten dollars was spent on a prospectus, $1 was paid for the use of a desk in Wilson's General Store and a crudely lettered sign, "Grain Growers' Grain Company", was hung in the window. By much hard work, this resolute group of men sold $25 shares with a 10 per cent down payment and by mid-summer had sold 1,000 shares and collected $2,500. Refused a

Dominion charter because the par value of their shares was only $25 and, under the Dominion Companies Act at that time, only $100 shares could be sold, they sought and secured a charter under the Manitoba Joint Stock Companies Act.

The next difficulty arose in securing a seat on the Winnipeg Grain Exchange. This required $2,500 and after paying organizational expenses, legal fees, the cost of securing a charter, printing, and so on, only $1,000 remained in the treasury. As a further call on subscribed stock would take too long, President Partridge decided to see "if some of the boys at Sintaluta would go security for $1,500." Five of the "boys" did and signed personal notes for the amount needed.

Financial arrangements were established with the Bank of British North America. An experienced grain man was secured as manager. A circular soliciting grain was sent to farmers and, on September 5, 1906, the company opened for business in a tiny office. The first bill of lading was received on September 21, followed by an ever-increasing number until by the end of the next month weekly receipts were up to 100 cars. Larger office space was secured and the future looked bright.

Then came the first blow. The Grain Exchange expelled the young company from all trading privileges. It was claimed that the payment of patronage dividends, the co-operative principle to which the new company was committed, was splitting commission — a practice contrary to the rules of the Exchange. The company was not yet strong enough to export grain on its own account and all existing exporters were members of the Exchange. Grain continued to pour in from farmers who had to be paid. A bank overdraft assumed alarming proportions. The head office of the bank demanded more security and without hesitation E. A. Partridge, John Kennedy and John Spencer pledged all their worldly possessions as security. Only strong support from the Scottish Co-operative Wholesale Society, coupled with substantial sales made direct to Eastern buyers and a whole cargo of 310,000 bushels to American interests, enabled the company to survive its first winter.

It is interesting to note that the vessel on which that grain was shipped was the last to leave Thunder Bay that fall. Winter was at hand. If that ship hadn't got out before freeze-up, the chances are we would not be gathered in this room this evening because without the movement of that cargo the young company would doubtless have gone bankrupt that winter.

Another problem arose when the company found that its plan of distributing profits co-operatively, as patronage dividends, was also contrary to the provisions of the Manitoba Joint Stock Companies Act under which it held its charter. At a directors' meeting on December 22, 1906, a resolution was passed cancelling the dividend proposal. In spite of this action, the Winnipeg Grain Exchange refused reinstatement. A meeting of the shareholders of the company was held on February 2, 1907, and the action taken by the directors in December was confirmed. Reinstatement was still refused and it became evident that the intention was to wreck the new farmers' company. An appeal was made to the government of Manitoba which demanded an explanation from the Exchange. After receiving an evasive answer, the following ultimatum was issued by the government to the Grain Exchange:

"The action of your Council in refusing trading privileges to the Grain Growers' Grain Company cannot be regarded by the government otherwise than as an arbitrary and unjustifiable exercise of the powers conferred upon you through your charter by the Legislative Assembly of Manitoba and unless remedied by the 15th of this month, the government will call the legislature together for the purpose of remedying this and other grievances by legislative amendments."

Under this kind of pressure reinstatement was finally granted by the Exchange on April 15, 1907 and this critical threat to your company's existence was ended.

By the close of the 1906-07 crop year, the Grain Growers' Grain Company had handled 2,340,000 bushels of grain, had paid off all its indebtedness, had relieved the Sintaluta farmers and the company executive officers of their liability and, in spite of the payment to the Bank of $10,000 of interest on their overdraft, showed a modest profit of $791. What was more important, it had clearly demonstrated that a farmers' marketing organization could survive all the opposition that could be directed against it. The farmers' company was now an established grain handling concern which, in one year, had put an end to the grain handling monopoly in Western Canada.

One year in the life of a company does not constitute a history but it can set a pattern and forecast a future. Over the years, United Grain Growers Limited has faced many challenges, but based on sound business principles and backed by loyal members, and able staff, it has met them with courage and confidence and has continued to demonstrate the truth of its original motto, "In Union is Strength."

Having survived the challenges of the first year of its existence, the Grain Growers' Grain Company was free to conduct its business in a more normal fashion and to look for more and better ways to serve its members.

An early development was the establishment in 1908 of the Grain Growers' Guide as a means of communicating with members in particular and farmers in general, as well as with the non-farm public. For many years this magazine was the voice of the organized farmer on the Prairies. With the coming of other farmer-owned grain companies, this function terminated but, under the title, The Country Guide, assumed in 1928, this publication continues to flourish as Canada's national farm magazine.

When the Grain Growers' Grain Company first started in business, it acted purely as a commission house handling carlots of grain shipped over the platform by individual farmers. In 1912, while continuing the commission business, the company moved into the operation of country elevators by renting 174 of them from their owners, the Government of Manitoba. Ownership of six country elevators was also acquired that year by building four and buying two. The company also commenced the operation of terminal elevators in 1912 by renting one at Fort William. An adjacent terminal was bought in 1913.

A noteworthy event of 1913 was the incorporation of the Alberta Farmers' Co-operative Elevator Company Limited along lines very similar to the Act incorporating the Manitoba and Saskatchewan company. In later years, this organization was to play a very significant part in the future of the Grain Growers' Grain Company Limited. This happened in 1917, when that company and the Alberta Farmers' Co-operative Elevator Company Limited merged to form United Grain Growers Limited.

This was a very significant amalgamation because the foresight and initiative of the leaders of those days set the stage for United Grain Growers to be the Prairie-wide institution it is today. Without that merger, its present stature and influence could not have been attained.

Another significant expansion took place in 1926 when United Grain Growers acquired a controlling interest in the Burrard terminal in Vancouver. This marked the start of its terminal operations at that port.

In 1927, Terminal "A" at Fort William was built. This was a large terminal by the standards of those days and is still an efficient plant.

In 1943, the first of a series of acquisitions of other companies was completed. These enabled United Grain Growers to play a significant role in the consolidation of the country elevator system of Western Canada. This process has seen the many small firms of earlier years condensed to the comparatively few, mainly large companies operating today. The first firm purchased was Gillespie Grain Company Limited and it gave United Grain Growers an additional 68 country elevators.

Other acquisitions in subsequent years were:

1947 — Reliance Grain Company Limited — 110 country elevators.

1954 — Midland and Pacific Grain Corporation Limited — 65 country elevators.

1959 — The Canadian Consolidated Grain Company Limited — 129 country elevators and one terminal elevator.

1961 — The CanWest Grain Company Limited — five country elevators in the Peace River area and seed plants at Edmonton and Winnipeg.

1969 — McCabe Grain Company Limited — 72 country elevators and a terminal at Thunder Bay.

A significant new development took place in 1966 with the founding of United Feeds Limited, jointly and equally owned by United Grain Growers and United Farmers of Alberta Co-operative Limited. This company was established, as its name implies, for the purpose of manufacturing and distributing animal feeds. Although United Grain Growers had previously been in the feed industry in a small way, the new company quickly built or purchased a number of additional mills and, in a few years, became the largest single manufacturer of animal feeds in Western Canada. In 1971, agreement was reached with UFA Co-op for the purchase of its interest and since that time this business has been wholly owned by United Grain Growers.

In 1973, your company participated in another joint venture when, in conjunction with British Columbia Packers Limited and Mitsubishi Canada Limited, it was decided to form a company and build a rapeseed crushing plant at Lloydminster, Alberta. While the project encountered difficulties in its early years, it has become a successful and profitable venture offering alternative marketing opportunities to rapeseed growers in the surrounding areas of Alberta and Saskatchewan. In 1980, ownership of the company, known as United Oilseed Products Ltd., changed to a degree when British Columbia Packers sold half of their one-third interest to United Grain Growers and half to Mitsubishi Can. Ltd. and Nisshin Oil Mills Ltd., thus creating a 50/50 ownership situation which still exists.

In 1978, a separate Special Crops Department was set up to market corn, sunflowers, lentils, fababeans, buckwheat and other special crops as farmers increasingly looked for alternatives to cereal grains, flax and rapeseed as cash crops and as improvements to their rotations.

In 1979, United Grain Growers became a member of the Prince Rupert Grain Terminal Consortium, now called Prince Rupert Grain Ltd., which was formed to purchase and operate the Canadian government terminal elevators at Prince Rupert and eventually to construct a large, new, high-capacity grain terminal at that port.

It is obvious that much water has gone under the bridge since the stirring events of the 1906-07 crop year made possible the continued existence of the infant company born in Sintaluta that year. So, it is to men of the courage, character and determination of Partridge, Kennedy, Spencer and the "boys at Sintaluta" that we owe our existence and the pride we feel at having a part in carrying on their efforts for the betterment of conditions for farm people in Western Canada.

It does seem fitting that we should remember them, and honor them, in this Diamond Jubilee year of the company they created. It may also be an appropriate time to rededicate ourselves to carrying on our share of the work they started in a way they would admire and applaud.

It should be remembered, however, that we now live and operate in a different world. The problems of the past were real and serious for our predecessors. The problems of today are just as real and damaging as those of 1906 and perhaps even more harmful to the hopes and aspirations of farmers. Two insidious evils are with us. I refer to inflation and interest rates at levels never before experienced on a general scale.

How can we meet them and beat them? What is their nature and cause and cure? We must know because they will hurt us as surely as the ills of former days hurt the pioneer farmers.

When you're thinking about our Prairie pioneers, think of this letter the company received from a young farm wife near Czar, Alberta, who wrote us after reading the special historical issue of Grainews that was mailed out this summer. Listen to Donna Ettinger's words. She wrote, "I had to write and tell you how much my husband and I enjoyed the July/August edition of Grainews. The special 1906 edition was marvelous. We are both in our twenties and had never learned a great deal of the struggles of the early farmers aside from environmental problems. It was especially interesting to see that the issues have not changed much in 75 years."

Mrs. Ettinger went on, "The things that were hurting farmers then are still hurting today, except that now we can substitute government wherever the word monopoly or combine was used 75 years ago. It is amazing the fight the farmers fought then to get out of the control of tyrants, whereas, now many are begging tyrants to control them."

I suppose Mac Runciman at this stage in his life could not let an opportunity go by to say at least a few words about government — or should I say the need for less government? — as it affects the lives of Canadians and of farmers.

I'll even pass by inflation and our government's role in causing this increase in the quantity of money in circulation which is the cause of inflation. Successive governments have been warned about perennial deficits but it did not influence the demagogues who cared not a whit for the enduring well-being of Canada. These demagogues cared for nothing but success in the next election campaign and were not in the least troubled about what would happen the day after tomorrow.

Unfortunately, it is precisely such people who have become supreme in Canada. Against all teaching of economists, inflation and credit expansion is now the first principle of economic policy, or at least it was until a few months ago. Nearly all governments — municipal, provincial and federal — are reckless spenders and finance deficits by printing more money or by boundless credit expansion.

This whole matter of inflation is an aspect of government dealt with at length in this year's annual report. Here, I want to deal more with the subject of freedoms and governments' encroachments into farmers' freedoms.

There are many people who simply can't appreciate the feelings of an entrepreneur — a man who can take capital and make a business out of it — as a farmer does. Because, and make no mistake about it, a farmer is an entrepreneur. A university professor is not an entrepreneur; nor is a politician nor a civil servant; nor is an employee of UGG for that matter.

Some of these people, whether they are socialists or just well-meaning people who would intervene supposedly in the "interests" of the entrepreneur; that is, the farmer, do not want to substitute totalitarianism for freedom. They declare they are planners and recommend a system they think will preserve freedoms and at the same time provide income protection. Unfortunately, for the entrepreneur, given bureaucratic lethargy and the passing of the years, these freedoms are often lost.

Unfortunately, there is no middle road — it's either state control or freedom. Rigid commodity prices, contracts, enforced lowering or raising of interest rates only paralyze the entrepreneur.

Profits and losses are the measuring sticks by which an entrepreneur tells if he is doing right or wrong. A profitable farm operator tends to expand, and an unprofitable one tends to shrink or sell out to his neighbor. This does not mean that a "free enterpriser" or a "real entrepreneur" is mean and greedy and lacks the monkish virtues of self-sacrifice that the planners ascribe to themselves. Profit and loss simply transfer the factors of production from the less efficient to the more efficient. It is not a question of personal merit or happiness.

As long as the objective is to produce an efficient bushel or tonne of grain, or pound of meat, this is the way to do it because the consumer picks the operator who does the best job: the consumer buys from the producer who can supply the goods the cheapest. He does this, just as a farmer as a consumer of fertilizer, seed, feed or machinery buys from the farm supply "producer" who can give him the best deal for his goods. This is how free enterprise works.

But some people do not want this extent of freedom. They do not want the risks of being wrong as an entrepreneur. These people find they are not so efficient at producing a bushel of grain — they have other values which they feel are more important. Maybe it's the rural way of life — maybe it's the fresh air. Anyway, as long as they can get about the same as their neighbor, they're happy! This matter of equality is important to them because under a free enterprise system a farmer who is less efficient than his neighbor at producing a bushel of wheat may be found wanting by his wife or children.

Now as long as the objective is not producing the most efficient bushel or tonne of wheat but lies in a more subjective field such as way of life, this is, of course, quite defensible.

Most farmers, I believe, would choose more of a middle road. They want government involved at least to the extent of helping to level out some of the vicious bottoms and tops of cycles so incomes can be stabilized. The Prairie Grain Stabilization Act is a good example of such a program and maybe a beef plan is needed, too, as your Directors mentioned in this year's annual report. The Prairie Grain Stabilization Act has the added advantage of giving farmers a certain amount of stability without interfering with the market.

Generally, what is looked for when the government intervenes in business for stability's sake is that government should provide a balance between the greatest stability and the least interference in freedom of operation. In Prairie agriculture, except for poultry, this means freedom from production controls.

So, in conclusion, in this the 75th year of United Grain Growers, I go back to Donna Ettinger's remarks, noting that our pioneer forefathers in forming the Grain Growers' Grain Company did so to avoid monopolies and combines. In reflecting on governments' encroachment in the daily lives of farmers, you will recall she observed: "It is amazing the fight the farmers fought then to get out of the control of tyrants, whereas, now many are begging tyrants to control them."

The tyrants won't win. Of course not, if Prairie farmers of the kind who started and sustained United Grain Growers through its first 75 years have anything to do about it. Their company is strong financially and has the confidence of its members. With good delegates, good directors, good staff, the knowledge and skills acquired over the years and the continued loyal support of its members, the company can look with confidence for even-greater success in the next 75 years as it continues to promote the best interests of farmers in Western Canada.

Thank you, Mr. Chairman.

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.

Under both plans, 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. UGG's marketing program during the last fiscal year continued to make favorable progress confirming that the plan has proven popular among farmers.

United Grain Growers also provides a *financial service* for farmers. The service is free of charge and answers questions and provides help in estate planning, making wills, and retirement planning.

The financial service 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 blended well with the other financial services provided by United Grain Growers.

Farm Policy

Two Price Wheat

On July 6, 1981, the House of Commons approved in principle a bill which retroactively legalized a 1978 federal government decision to end consumer subsidies under the Two Price Wheat Act. The bill has been sent to the Commons Agriculture Committee to be studied in the current session.

Under the Two Price Wheat Act, farmers were guaranteed a minimum of $3.25 per bushel for milling wheat sold into the domestic market and up to $5 per bushel if world prices were higher than $3.25. Millers paid $3.25, regardless of world prices and the government paid farmers the difference between $3.25 and the world price to a maximum of $5. In late 1978 the government announced it was dropping the subsidy, raising the minimum to $4, transferring the program to the Canadian Wheat Board Act, and leaving millers to pay the going price up to a maximum of $5 per bushel. The act never passed, however, thus theoretically the government owes consumers two years of subsidies. Repeal of the bill wipes out that obligation.

Since August 1, 1967 to July 31, 1980, Canadian consumers have received $464.8 million net benefits under the Two Price Wheat Act. Farmers have received $7.8 million net benefits. Government cost has been $472.6 million.

The directors of United Grain Growers agree with terminating the Two Price Wheat Act. They view it as interference in the natural forces of supply and demand in grain marketing. The funds would be better spent directly helping needy people among both consumers and farmers.

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, 1983.

Extending the wheat agreement — comprised of the Wheat Trade Convention of 1971 and the Food Aid Convention of 1980 — authorizes the International Wheat Council to continue collecting, analyzing and disseminating data on international wheat developments, particularly regarding supply, demand, trade and prices.

This is the sixth extension of the Wheat Trade Convention and the first extension of the Food Aid Convention. The food aid pact maintains the participating nation's commitments to provide minimum annual amounts totalling 7.6 million tonnes a year for food aid to developing countries.

The directors of United Grain Growers believe the objectives of Canada in the international wheat market are sound. 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 the objectives initiated in 1979 in Saskatoon, and continuing in Ottawa this December.

Market Assurance Plan

The Advisory Committee to the Canadian Wheat Board this past winter introduced and promoted a Market Assurance Plan (MAP) whereby farmers would be paid for all the grain they produced and wanted to sell in a year, including grain they didn't deliver but had stored on farms. The Canadian Wheat Board would call in the grain as it was needed. The objectives of MAP were listed as these:

- "To provide a strong incentive to farmers to increase production (more seeded acres and higher yields)."
- "To reinforce the ability of the Canadian Wheat Board to meet market demand effectively and efficiently."
- "To eliminate distressed feed grain prices in Western Canada, thus, helping to provide equity in the domestic livestock industry as well as

assuring supplies for an important and growing market for Western grains."

The plan originated in secrecy and the early intentions were that MAP start in the current crop year. The Canadian Wheat Board while denying it backed the scheme formally, nevertheless gave informal backing to the plan. The Progressive Conservative Party opposed the plan and the New Democratic Party supported it. The Prairie Wheat Pools and the Minister Responsible for the Canadian Wheat Board also supported it.

The directors of United Grain Growers did not attack the program. We did question, however, what impact this would have on farmers' freedoms, what alternative plans were there to achieve the same security without impinging on freedoms, what effect this would have on Wheat Board crops compared to non-Board crops.

If MAP comes off the "shelf" in the future, the directors recommend the government to commission an independent assessment of the program in the interest of Prairie farmers. Also such a plan should not affect the economic well-being of non-Board crops; otherwise we hazard going the hopeless direction of socialist countries in food grain production. No plans should impinge on a farmer's freedom to choose the crop he wants to seed and market.

Rail Transportation

Transportation policy continues to be an issue of major concern to western farmers and United Grain Growers. The board of directors of United Grain Growers remains concerned about how this policy is evolving, particularly by the lack of political progress in the development of a policy. They are committed to working with 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 realized.

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.

March Pre-Seeding Announcement

Following the Lower Inventories For Tomorrow (LIFT) program of 1971, the Minister Responsible for the Canadian Wheat Board in his March pre-seeding announcement has indicated to Prairie farmers what he considers to be ideal seeded acreage figures, initial quotas and initial payments for Canadian Wheat Board Grains to be expected the following crop year. The program was introduced so farmers could assess grain market opportunities as *they* judged best fitted their individual situation. An important element of this system was that there was to be no government interference in the way of production controls or "guidance."

Unfortunately, this past spring the Minister Responsible for the Canadian Wheat Board did not release initial payments to be expected for wheat, barley or oats in the 1981-82 crop year. The directors of United Grain Growers objected in a telex to the Minister, but were advised by the Minister in a telex: "Increased volatility in grain markets renders pre-seeding announcement of dubious value." In an apparent lapse of memory, the same Minister advised delegates to the Saskatchewan Federation of Agriculture in Saskatoon this past June that he delayed the announcement until after seeding in order not to discourage producers. Senator Hazen Argue stated, "That's the very reason I felt it was wise not to announce the initial price before seeding. It wasn't not to disclose the facts, but to have announced a reduction in the adjusted price would have seemed to me to have been the wrong signal to producers because the markets are very good. The markets are very buoyant. We need all the production we can bring forward."

It goes without saying to any Prairie farmer this is exactly the kind of guidance he does *not* need and the directors of United Grain Growers request the government to again announce the initial payments in March as has been the case for some years. More important: they suggest the Government of Canada desist from attempting to determine what is "good for farmers" in terms of the best crops to seed. This is a matter that is best left to farmers.

Co-operative Energy Project

The Government of Canada this past winter approached co-operatives with the proposal that the government and co-operative organizations invest $100 million in a Co-operative Resources Holding Company (now called Co-Enerco) to explore and develop Canadian oil resources. This project was accepted by most major co-operatives in Canada except United Grain Growers. Pledges of funding so far have been obtained from Alberta Wheat Pool, $8 million; Saskatchewan Wheat

Pool, $12 million; Manitoba Pool Elevators $2.5 million; Federated Co-operatives Limited, $20 million; The Co-operators, $10 million; Credit Union of Saskatchewan, $4 to $5 million; Co-op Atlantic, $1 million.

The directors of United Grain Growers wish the other co-operatives well in their new venture. They declined participation in the project for four reasons:

- The main business and expertise of United Grain Growers is the grain business and other businesses allied to farming. The elevator business, in particular, is in urgent need of more capital investment.
- While more "Canadianization" of the oil business may be a worthy goal, government financial assistance to one group of Canadians (co-operatives) and not to other Canadians (established Canadian companies) is inherently unfair.
- United Grain Growers prefers not to go into business with a government or a body of government.
- From a strictly financial standpoint in the oil business, oil exploration opportunities in the U.S. offer more opportunity for profits than here in Canada where drilling costs are almost double those of the U.S. and where different levels of governments now take an undue share of oil revenues.

The directors of United Grain Growers feel that the get-rich glamour of the oil business is fading with the move of North America to world prices and the breakdown of OPEC price fixing as a result of declining demand. They do not visualize your company taking an active role in oil exploration in the future.

Beef Marketing Board

High interest rates, comparatively high costs for feed, and weakening consumption trends for beef have closed feedlots and led to herd dispersals among many Prairie cattlemen. Not unexpectedly among the variety of solutions to solve the problems plaguing cattlemen has been some form of compulsory marketing board. It seems to be the nature of the times that when a commodity produced under a free market system is in trouble a marketing board is proposed as the answer; yet when a marketing board commodity is in trouble the answer to the problem never seems to be a dose of free enterprise.

A paper prepared for the Senate Agriculture Committee on alternative market and stabilization programs for the Canadian Beef industry suggests four options:

- A compulsory central selling system to lower costs and boost competition.
- A national income stabilization plan to assure a reasonable return over production costs (involving a market sharing quota with income shortfalls made up from the general treasury).
- A producer-operated supply management program with historically based marketing quota. Prices based on cost of production would be established for feeder cattle. Controls would be at the feeder cattle level, with surplus removal costs met through levies on the sale of slaughter cattle. Imports would be controlled.
- A producer-operated national income stabilization program, also with historically based market share quota and import controls. Slaughter cattle levies would cover shortfalls between actual returns and a reasonable return calculated from a cost-of-production formula.

The directors of United Grain Growers have always opposed compulsory marketing boards unless a sizable majority of producers of the commodity concerned approve of such a board; otherwise, they prefer a voluntary board which gives those producers who want protection a body that represents them, yet which gives those who prefer to measure their skills against the risks and opportunities of the open market the freedom to do so.

If the objective of a cattle marketing board is to create an elite society of cattlemen, then a model patterned after the present egg, broiler and turkey marketing boards is in order. If the objective is to stabilize cattlemen's incomes from the vicious cycles that have prevailed in the 1970s, then the directors of United Grain Growers suggest consideration of a stabilization plan similar to the Prairie Grain Stabilization Plan. They reject introduction of a compulsory cattle marketing board unless it carries majority approval of bona fide cattlemen.

Conclusion

This 75th report of your company shows United Grain Growers is strong in financial resources and assets. UGG continues to grow in strength and influence: 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 and to sell record amounts of farm supplies.

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.

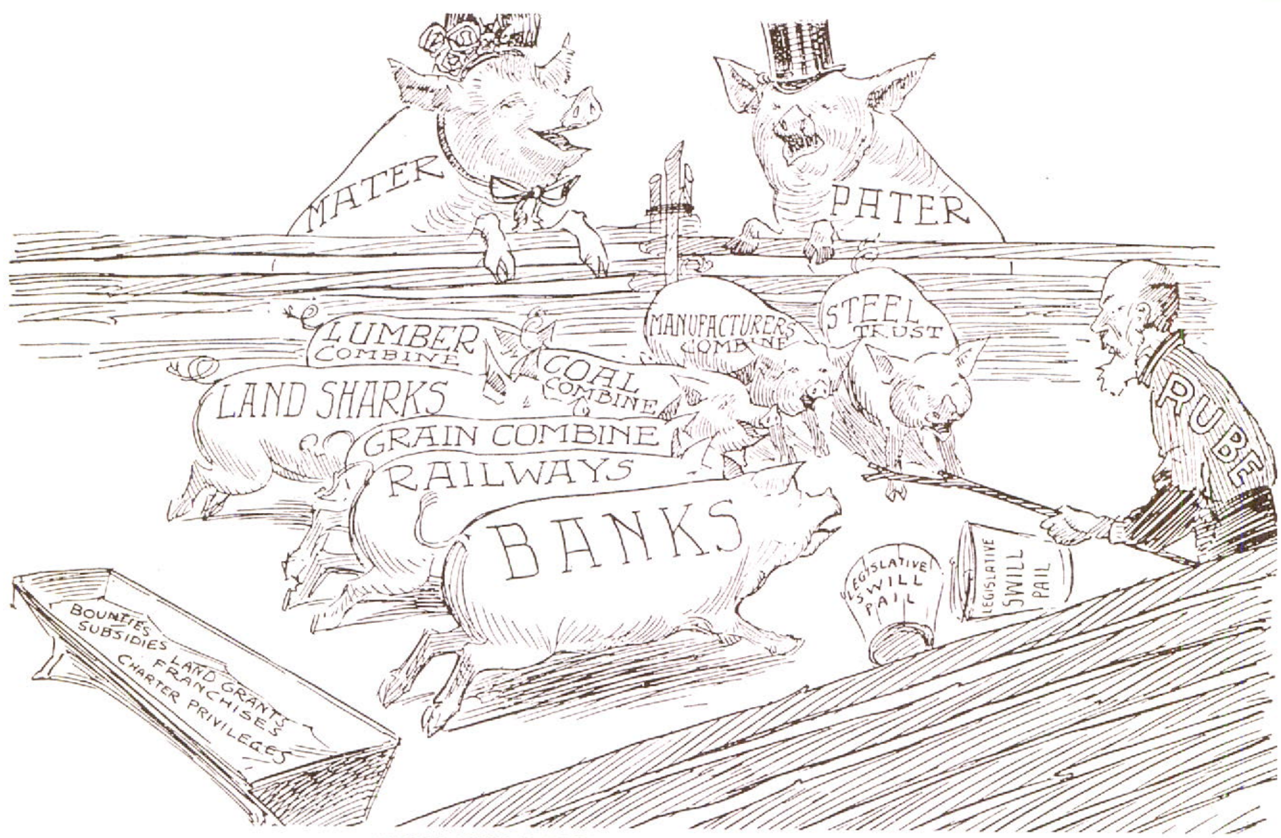
In this its 75th year, it is important to remember the success of United Grain Growers is largely due to the volume of grain annually delivered by the thousands of members and customers. This report shows that revenue from handling grain is the key to maintaining and rebuilding your country elevator 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, and as long as space is available, 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 4.3 million tonnes received and the one-third increase in the value of farm supplies sold is solid evidence of strong farmer 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.

In assessing the affairs of United Grain Growers these past 75 years, even E. A. Partridge, founder of one of UGG's predecessors, the Grain Growers Grain Company, could not have envisioned such growth when, in 1905, he proposed "the time is ripe for inaugurating a co-operative movement to the extent of forming a company of farmers to undertake the marketing of their wheat."

Since the 60th anniversary of your company, it has become the largest



NOW WILL YOU BE GOOD, REUBEN?

Pater—"Shame on you children, to worry old Reuben so. You know someone must provide the swill."
The Children—"Yes, but he needs a scare to keep him in his place. It seems he has been finding fault with us and wanting to restrict our food supply."
Mater—"Sweet children, the pater is right. I often chide him for being too indulgent to you, but whenever he is out you get the best of treatment from me. But you know that while we have no respect for Reuben we cannot do without him."

Hardly timid about making their distrusts felt, early Prairie grain growers in a single blast, here, damn nearly all industries, banks, political patronage and lack of political action.

feed company in Western Canada and a partner in a large oilseed crushing facility. It has embarked on an aggressive domestic and export grain marketing program and has developed an extensive contract program for special crops.

Transportation policy and inflation control are the key issues of concern to Western farmers and United Grain Growers.

Central to the issue of transportation is the question of grain freight rates. It is like a time bomb that threatens the very growth of grain exports in the last part of this decade. UGG is committed to working with producers of grain and livestock, farm organizations and governments at all levels with the objective of a unified prairie transportation policy. The basic objectives of this policy should be to ensure that the most effective and efficient transportation system evolves and at the same time to guarantee the Prairie's comparative advantage in the livestock and secondary processing industries.

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

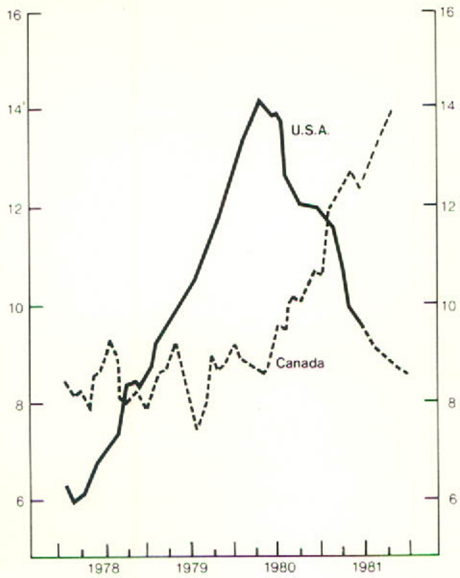
Regarding inflation*, agriculture does not exist in an economic vacuum. Problems in the general economy are quickly transferred to the farm economy. Until the problems in the overall economy are solved, we can continue to find problems in agriculture whose roots are found elsewhere.

*** The matter of inflation is discussed in some detail in Appendix C.**

CONSUMER PRICE INDEX

CANADA AND THE U.S.A.

Year over Year Percent Change



In one thing the mood of all Canadians now seems clear: rein in big government and get control of federal spending. The public is finally conscious that flinging public money at every conceivable social and economic need has not really worked to bring the Canada most people want. What it has done here, and in many other countries of the world, is to plunge Canada into economic sluggishness, unchecked inflation due to the deficit and increased supply of money, and record-high interest rates.

The cost of government is barrelling out of control. The net debt per capita is now $3,432 compared to $771 just 10 years ago. Canada has been living far beyond its means and it is now paying for it with the concealed tax of inflation. Long gone is the time when Canadians demanded that government keep its spending in line with its income. Even as tax revenues have risen year after year, spending has gone up even faster. The result: deficit stacked upon deficit, resulting in increased money supply which *is* inflation.

In good times and bad, the government has been supplementing its tax revenues by borrowing money. It, thus, competes with farmers and businesses and drives up the cost of available money. It siphons off funds that could be used for private investment in productive activities to create products and jobs.

Meanwhile, all the borrowing has sent the public debt ballooning upward. Canada needs the resolve to put our fiscal house in order. Matching federal outgo to income will take time. The excess spending of decades can't be undone in a year or two. It will demand steadfastness, political courage, and a toning down by farmers and industry of the tendency to turn to the government to fund solutions to problems. Nor should budgetary restraint be achieved at the expense of people genuinely in need. They must be protected.

The painful tax that inflation has posed on farmers will not be easy to cure. It will take a period of bitter medicine before the ills are cured. The bright side is that farmers and United Grain Growers are likely to be far better off once a stable economy is achieved.

AM Runciman

President

United Grain Growers

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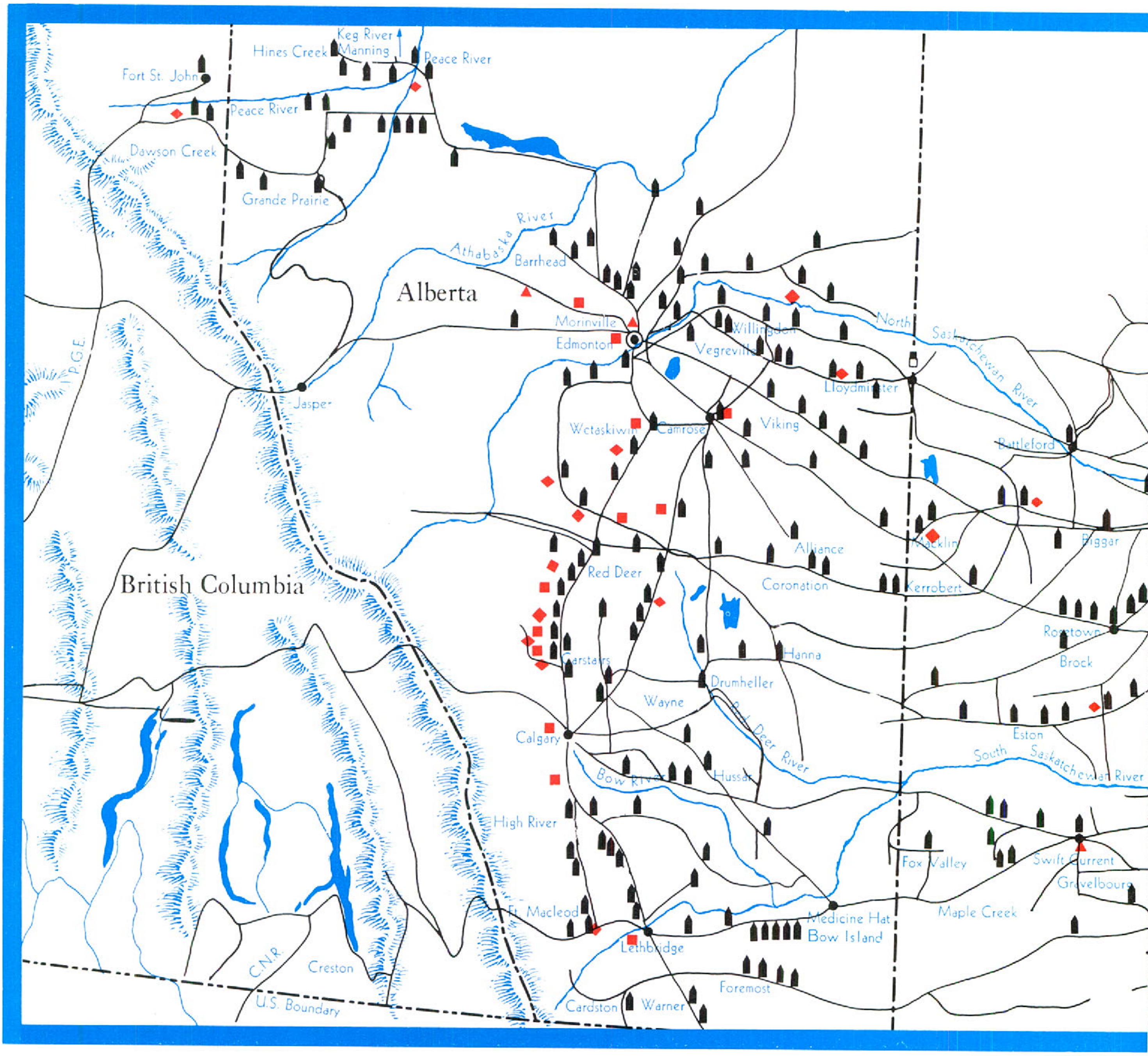
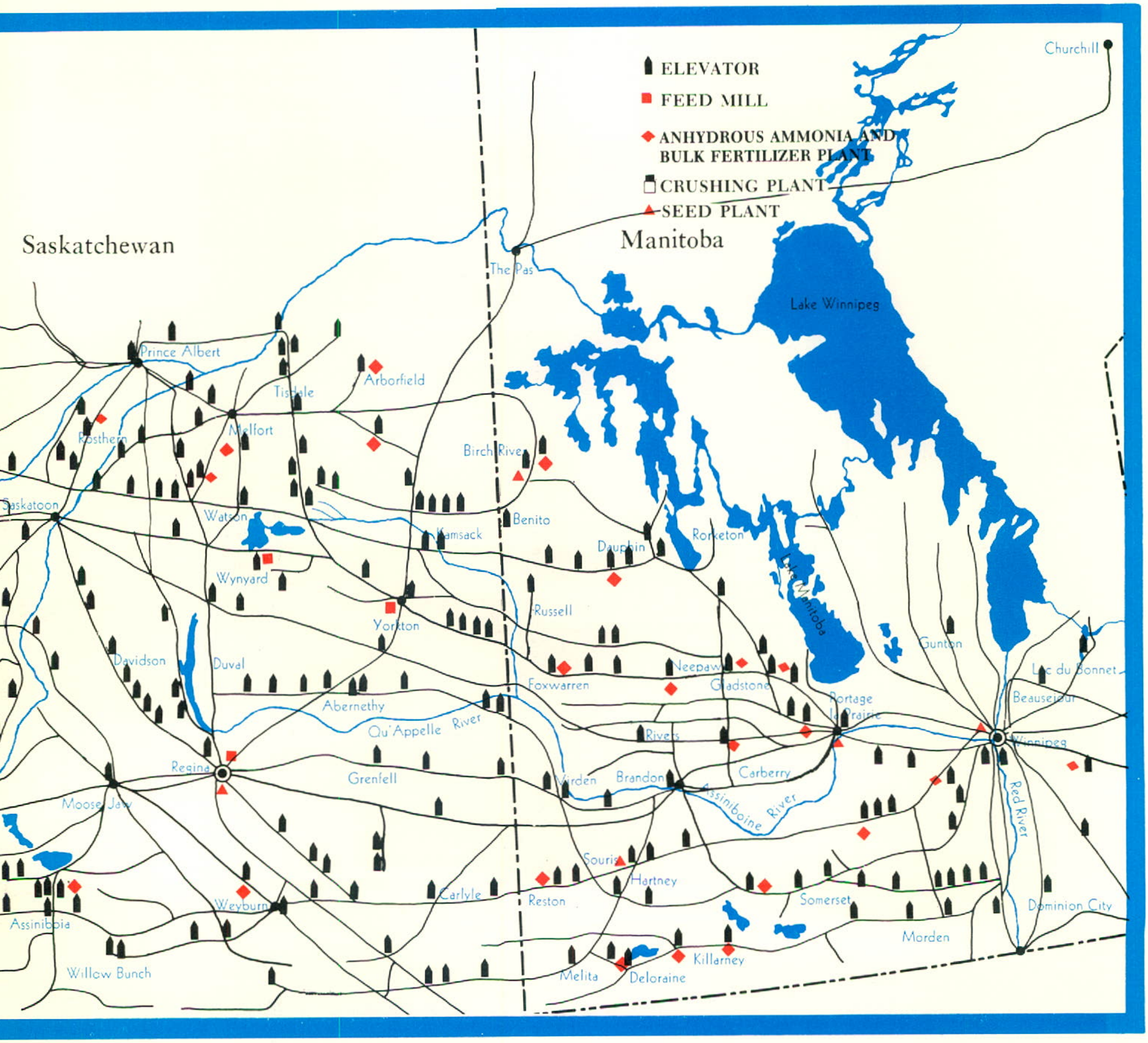


00 prairie farmers built



Financial Statements

Earnings

For the Year Ended July 31, 1981

United Grain Growers Limited

		1980 Comparison
Sales and revenue from services (note 1)	$1,374,576,000	$1,247,611,000
Operating revenues	$ 101,451,000	$ 102,696,000
Gain on property disposals	1,769,000	1,415,000
Share of net earnings of associated companies	1,828,000	1,452,000
	$ 105,048,000	$ 105,563,000
Operating, general and administrative expenses (note 2)	93,495,000	85,293,000
Earnings before patronage dividend and income taxes	$ 11,553,000	$ 20,270,000
Provision for patronage dividend	1,850,000	6,600,000
	$ 9,703,000	$ 13,670,000
Provision for deferred income taxes	2,100,000	4,475,000
Net earnings	$ 7,603,000	$ 9,195,000

Retained Earnings

For the Year Ended July 31, 1981

		1980 Comparison
Balance at beginning of year	$ 43,267,000	$ 35,029,000
Net earnings	7,603,000	9,195,000
	$ 50,870,000	$ 44,224,000
Deduct:		
Dividend of 7% declared on Class A Shares	$ 1,016,000	$ 927,000
Dividend of 7% provided on Class B Shares	32,000	30,000
	$ 1,048,000	$ 957,000
Balance at end of year	$ 49,822,000	$ 43,267,000

Changes in Working Capital

United Grain Growers Limited

For the Year Ended July 31, 1981

	1981	1980 Comparison
Working Capital Derived From		
Operations		
Net earnings	$ 7,603,000	$ 9,195,000
Items affecting earnings not requiring use of working capital	7,241,000	14,870,000
	$ 14,844,000	$ 24,065,000
Proceeds from property disposals	2,568,000	2,054,000
Dividends received from associated companies	1,200,000	700,000
Issue of promissory notes	6,062,000	96,000
	$ 24,674,000	$ 26,915,000
Working Capital Applied To		
Capital expenditures for properties	$ 16,565,000	$ 11,656,000
Retirement of long-term liabilities		
Series A debentures	950,000	950,000
Promissory notes and purchase agreement	2,091,000	862,000
Patronage dividends	2,010,000	272,000
Shareholders' dividends	1,048,000	957,000
Investments: (note 4)		
United Oilseed Products Ltd.	4,000,000	—
Prince Rupert Grain Ltd.	450,000	—
Northland Bank	102,000	—
	$ 27,216,000	$ 14,697,000
Increase (Decrease) in Working Capital	$ (2,542,000)	$ 12,218,000
Working capital at beginning of year	30,678,000	18,460,000
Working capital at end of year	$ 28,136,000	$ 30,678,000

Financial Position

July 31, 1981

		1980 Comparison
ASSETS		
Current		
Cash	$ 6,194,000	$ 4,889,000
Deposits — The Canadian Wheat Board	47,956,000	13,831,000
Accounts and accruals receivable	59,777,000	43,247,000
Inventories (note 3)	221,790,000	160,051,000
Prepaid expenses	2,058,000	2,685,000
	$337,775,000	$224,703,000
Other		
Deferred financing expense	$ 185,000	$ 197,000
Investments (note 4)	8,301,000	3,254,000
	$ 8,486,000	$ 3,451,000
Fixed		
Properties, at cost (note 5)	$152,392,000	$138,054,000
Accumulated depreciation	57,354,000	52,039,000
	$ 95,038,000	$ 86,015,000
	$441,299,000	$314,169,000

Approved by the Board:

AM Runciman Director

Ted Allen Director

		1980 Comparison
LIABILITIES		
Current		
Bank loans, secured (note 6)	$135,956,000	$ 71,509,000
Other loans	43,676,000	55,401,000
Unpresented grain and other cheques	106,667,000	48,533,000
Accounts payable and accruals	19,596,000	15,574,000
Dividend payable to shareholders	1,016,000	927,000
Current maturities of long-term liabilities	2,728,000	2,081,000
	$309,639,000	$194,025,000
Long-Term		
Series A debentures (note 7)	$ 18,100,000	$ 19,050,000
Promissory notes (note 8)	6,331,000	2,242,000
Purchase agreement maturing $118,000 annually to 1995	1,530,000	1,648,000
Patronage dividends (note 8)	17,592,000	20,142,000
	$ 43,553,000	$ 43,082,000
Deferred Income Taxes	$ 20,965,000	$ 18,865,000
Commitments (note 10)		
SHAREHOLDERS' EQUITY		
Share Capital (note 9)		
Class A non-voting non-cumulative redeemable preferred shares callable at $24, par value $20 each Authorized 1,200,000 shares; Outstanding 844,226 shares (1980 - 725,478)	$ 16,885,000	$ 14,509,000
Class B (membership) shares par value $5 each Authorized 200,000 shares; Outstanding 87,053 shares (1980 - 84,128)	435,000	421,000
Retained Earnings	49,822,000	43,267,000
	$ 67,142,000	$ 58,197,000
	$441,299,000	$314,169,000

Notes to Financial Statements
July 31, 1981

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 $251,882,000. (1980 — $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.

The grain inventory includes both hedged and unhedged positions.

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

Deferred Income Taxes

Deferred Income Taxes results primarily from the practice of claiming for taxation purposes capital cost allowances in excess of the depreciation annually provided in the accounts.

2. Operating, General and Administrative Expenses

		1980 Comparison
Operating, general and administrative expenses include—		
Depreciation	$ 6,743,000	$ 6,695,000
Interest on long-term debt	3,530,000	3,177,000
Interest on other debt, net of interest recovered from The Canadian Wheat Board	11,568,000	10,843,000

3. Inventories

Grain held for the account of The Canadian Wheat Board	$157,492,000	$ 46,223,000
Grain held for the Company's own account	34,699,000	80,921,000
Farm supplies, seeds and feeds	29,599,000	32,907,000
	$221,790,000	$160,051,000

4. Investments

		1980 Comparison
United Oilseed Products Ltd.		
Shares, 50% equity, at cost (1980 - 33⅓%)	$ 6,600,000	$ 2,600,000
Share of accumulated net earnings	2,089,000	1,244,000
	$ 8,689,000	$ 3,844,000
Less: Dividend received	1,050,000	700,000
	$ 7,639,000	$ 3,144,000
Prince Rupert Grain Ltd.		
Advance	$ 10,000	$ 10,000
Consortium Notes pending (note 10)	450,000	—
	$ 460,000	$ 10,000
Northland Bank		
Common shares, at cost	$ 202,000	$ 100,000
Total Investment	$ 8,301,000	$ 3,254,000

5. Properties

		1980 Comparison
Country elevator properties, feed plants, seed cleaning plants, warehouses and sheds	$ 91,120,000	$ 81,304,000
Terminal elevator properties	52,562,000	49,866,000
Printing plant equipment	3,113,000	1,583,000
Miscellaneous equipment	5,597,000	5,301,000
	$152,392,000	$138,054,000

6. Bank Loans

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

7. 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, 1982 through 1996 with the balance due April 1, 1997.

8. 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
1983	$ 1,033,000	$ 2,111,000
1984	1,121,000	1,931,000
1985	1,137,000	4,362,000
1986	1,040,000	2,521,000
1987	1,000,000	486,000
1988-91	1,000,000	4,331,000
	$ 6,331,000	$ 15,742,000
Provision for allocation on 1980-81 grain purchases		1,850,000
		$ 17,592,000

9. Share Capital

A portion of the 1979-80 patronage dividend was allocated to customers by the issuance of 118,731 Class A and 4,139 Class B membership shares at par value on July 31, 1981.

In addition, during the year 17 Class A shares were issued at par value and 1,214 Class B shares were purchased for re-issue.

10. Commitments

Leases

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 fifteen years, involving current minimum annual rental payments of approximately $2,900,000.

Prince Rupert Grain Ltd.

The Company has entered into an agreement with five other grain companies to form a Consortium. The Consortium, of which the Company has a 15% interest, has entered into a memorandum of understanding with the Government of Canada whereby the feasibility of constructing a new grain terminal elevator on Ridley Island near Prince Rupert, British Columbia is being studied and whereby the existing grain terminal elevator at Prince Rupert, British Columbia has been operated for the Consortium by Prince Rupert Grain Ltd. The major financing for this project has been arranged through the Province of Alberta by way of first mortgage bonds and participating debentures. The financing documents for the project provide for a maximum commitment by the Company over the next four years of $15,150,000. This commitment is contingent upon the acceptance by the Company and other Consortium members to proceed with the project. If the project were not to proceed, then the Company will be liable for 15% of the Consortium's share of engineering, site-clearing and grading costs which will have been incurred prior to the decision to proceed with the project. The Company's commitment to March 1982, which is the date of a decision on whether or not to proceed, is estimated to be $1,650,000. A liability for $450,000 of this amount has been recorded in the July 31, 1981 accounts.

11. Related Party Transactions

During the normal course of business, the Company borrowed funds at competitive interest rates and purchased products from United Oilseed Products Ltd., an Associated Company.

Responsibility for Financial Statements

UNITED GRAIN GROWERS LIMITED

The financial statements of the Company for the year ended July 31, 1981 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, 1981 and results of its operations for the year then ended.

The Company's independent auditors, Price Waterhouse, 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, 1981

G. D. Moss
General Manager

Treasurer

Auditors' Report to the Shareholders

Price Waterhouse
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, 1981, 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, 1981 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, 1981

Price Waterhouse
Chartered Accountants

Comments on Financial Statements

Earnings

The Earnings statement shows sales and revenue from services of $1,374,576,000 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 $101,451,000, gain on property disposals of $1,769,000 and share of net earnings of associated companies of $1,828,000. Operating, general and administrative expenses amounting to $93,495,000 include interest expense, net of interest recovered from The Canadian Wheat Board of $15,098,000 and provision for depreciation of $6,743,000. This leaves earnings of $11,553,000 before patronage dividend and income taxes.

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

Provision for taxes on income is $2,100,000, all of which is deferred.

This leaves net earnings of $7,603,000 which amount is carried to Retained Earnings.

Retained Earnings

Retained Earnings at the beginning of the fiscal year were $43,267,000. The addition of net earnings brings the total to $50,870,000. From this amount is deducted a dividend of 7% declared on Class A shares, amounting to $1,016,000 and a dividend provision of 7% amounting to $32,000 on Class B shares. Retained Earnings are $49,822,000 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 $7,603,000, items affecting earnings not requiring use of working capital of $7,241,000, proceeds from property disposals of $2,568,000, dividends received from associated companies of $1,200,000, and issue of promissory notes of $6,062,000.

Working capital was used during the year for capital expenditures for properties of $16,565,000, retirement of long-term liabilities including Series A debentures of $950,000, promissory notes and purchase agreement of $2,091,000 and patronage dividends of $2,010,000, shareholders' dividend of $1,048,000 and investments totalling $4,552,000.

The net decrease in working capital for the year amounts to $2,542,000 (1980 — $12,218,000 increase) which brings the total to $28,136,000 (1980 — $30,678,000) 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 **$6,194,000**

(1980 — $4,889,000). This is mainly cash in transit to banks but also includes petty cash funds in various offices.

Deposits — The Canadian Wheat Board **$47,956,000**

(1980 — $13,831,000). 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 **$59,777,000**

(1980 — $43,247,000). 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 $1,098,000 (1980 — $1,016,000) is carried against possible uncollectible accounts.

Inventories **$221,790,000**
(1980 — $160,051,000). Grain held for the account of The Canadian Wheat Board amounting to $157,492,000 (1980 — $46,223,000) 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 $34,699,000 (1980 — $80,921,000) 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 and at terminal locations.

The remainder of the Inventories of $29,599,000 (1980 — $32,907,000), include feeds, seeds, fertilizers, agricultural chemicals and twine. Stocks of these are carried at many locations to be available as required.

Prepaid Expenses **$2,058,000**
(1980 — $2,685,000). 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 **$337,775,000**
(1980 — $224,703,000). This is the total of the foregoing items and is to be compared with the total current liabilities of $309,639,000 shown on the opposite side of the Financial Position statement. The difference of $28,136,000 is working capital (1980 — $30,678,000).

Deferred Financing Expense **$185,000**
(1980 — $197,000). 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 **$8,301,000**
(1980 — $3,254,000). This includes $6,600,000 representing the cost of one-half of the issued common shares of United Oilseed Products Ltd., plus $2,089,000 representing one-half of accumulated net earnings less $1,050,000 in dividend received, an investment of $460,000 in Prince Rupert Grain Ltd., and investment of $202,000 in common shares of Northland Bank.

Properties, at Cost **$152,392,000**
(1980 — $138,054,000). This represents the cost of properties owned at the year end. The increase mainly includes the cost of improvements and additions of $9,816,000 to country properties and $2,696,000 to terminal properties.

Accumulated Depreciation **$57,354,000**
(1980 — $52,039,000). 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 $6,743,000 (1980 — $6,695,000).

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 **$441,299,000**
(1980 — $314,169,000). This total is higher than a year ago mainly because of the higher deposits with the Canadian Wheat Board and inventories.

Liabilities

Bank Loans, Secured $135,956,000

(1980 — $71,509,000). 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 12.25% per annum and at the time of writing is 20.75%.

The increases in bank and other loans are due mainly to higher inventories of grain held for the account of the Canadian Wheat Board.

Other Loans................. $43,676,000

(1980 — $55,401,000). 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 $106,667,000

(1980 — $48,533,000). 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 $50,400,000 (1980 — $16,900,000) is represented by grain purchase cheques which were post-dated to 1982.

Accounts Payable and Accruals $19,596,000

(1980 — $15,574,000). 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 $1,016,000

(1980 — $927,000). This represents 7% on the paid-up value of Class A shares as at July 30,1981, 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 $2,728,000

(1980 — $2,081,000). 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 $1,485,000, promissory notes of $175,000, instalments on purchase agreement of $118,000 and Series A debenture of $950,000.

Total Current Liabilities $309,639,000

(1980 — $194,025,000). This total has already been compared with Total Current Assets in order to establish the amount of working capital.

Series A Debentures $18,100,000
(1980 — $19,050,000). 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. The balance outstanding is repayable in annual instalments of $950,000 in 1982 through 1996 with the balance due April 1, 1997 when the debentures mature.

Promissory Notes $6,331,000
(1980 — $2,242,000). These are unsecured promissory notes maturing at various dates more than twelve months from the date of the Financial Position statement.

Promissory notes in the amount of $6,000,000 issued during the year to a major Canadian bank are repayable in annual instalments of $1,000,000 in 1982 through 1987.

The outstanding notes also include $331,000 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.

Purchase Agreement $1,530,000
(1980 — $1,648,000). 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 1982 to 1995.

Patronage Dividends $17,592,000
(1980 — $20,142,000). This includes the amount of $1,850,000 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, 6, or 7%, depending upon the year of issue and are redeemable in varying amounts annually on May 15 until 1991.

Deferred Income Taxes $20,965,000
(1980 — $18,865,000). 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 $17,320,000
(1980 — $14,930,000). At July 31, 1981, the paid-up value of Class A shares outstanding is $16,885,000 and the par value of Class B shares outstanding is $435,000.

Retained Earnings $49,822,000
(1980 — $43,267,000). This represents the cumulative amount of net earnings reinvested in the Company.

Shareholders' Equity $67,142,000
(1980 — $58,197,000). This includes Share Capital and Retained Earnings and represents the total shareholders' investment in the Company.

Total $441,299,000
(1980 — $314,169,000). 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 1981. 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 291 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	1981	1980	1979
Operating revenues	$101,451	$102,696	$78,385
Earnings before patronage dividends and income tax	11,553	20,270	10,597
Net earnings	7,603	9,195	6,367
Working capital	28,136	30,678	18,460
Capital expenditures	16,565	11,656	18,119
Total investment in fixed assets	152,392	138,054	128,450
Accumulated depreciation on fixed assets	57,354	52,039	46,757
Paid-up share capital	17,320	14,930	13,661
Shareholders' equity	67,142	58,197	48,690
Cumulative total of shareholders' dividends	18,035	17,019	16,092
Cumulative total of patronage dividends including interest thereon	58,082	55,675	48,546
Statistical			
Country handling — in thousands of tonnes	4,256	4,235	3,612
Elevator licensed storage capacities — in thousands of tonnes			
Country	1,507	1,552	1,639
Terminal	424	424	424
Number of country elevator manager units	359	381	402
Total licensed elevators	553	584	628
Number of employees	2,028	1,907	1,908
Number of shareholders	93,528	90,053	92,892
Number of shareholders' locals	291	294	299

1978	1977	1976	1975	1974	1973	1972
	(000's)					
$69,629	$61,640	$57,251	$49,845	$48,638	$37,381	$34,234
6,852	1,936	5,305	7,399	13,274	4,729	5,052
3,025	1,280	1,065	2,569	3,374	1,809	1,932
24,473	29,808	19,964	21,252	20,960	13,900	11,874
15,100	12,336	10,307	5,749	4,131	5,808	4,765
111,211	98,894	87,513	78,069	74,196	70,991	67,671
42,680	40,086	36,914	34,072	32,080	30,105	28,774
12,538	12,546	10,428	9,190	6,796	6,797	6,797
42,016	39,810	37,096	35,348	30,798	27,833	26,432
15,303	14,412	13,759	13,229	12,838	12,381	11,990
46,214	43,931	43,319	40,079	36,832	29,255	27,658
4,170	3,734	3,407	2,770	3,088	3,456	3,284
1,666	1,681	1,738	1,756	1,800	1,803	1,792
424	424	424	424	424	452	456
	(units)					
420	434	452	472	481	492	499
648	669	701	720	750	759	768
1,816	1,910	2,104	2,022	2,003	2,100	2,116
87,015	90,651	81,898	77,603	57,798	57,992	57,642
306	311	313	317	323	327	330

APPENDIX A

1981-82 Budgets For New Elevator Construction

Inflation continued during the 1980/81 crop year at a rate that challenges the budgeting process. Budgets are essential to evaluate the viability of all new capital projects. A 25-year write-off period and interest of 15 percent 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 $780,000.

Projected Long-Run Market Conditions:

- Average handle of 18,000 tonnes
- Average daily stocks in store of 65% of licensed capacity.
- Average sales of $175,000.
- A balance of revenues and expenses on incidental items.

REVENUES

Handling Earnings: $6.70 x $18,000 =	$120,600
Sales Earnings: 20% x $175,000 =	$ 35,000
Storage Earnings: 3,500 tonnes x .65 x .024 x 365 =	$ 19,929
Terminal Earnings: 80¢ x 18,000 tonnes =	$ 14,400
TOTAL	$189,929

EXPENSES

Direct Operating: $4.70 x 18,000 tonnes =	$ 84,600
Direct Fixed =	$100,000
Overhead & Administration: $2.75 x 18,000 tonnes =	$ 49,500
TOTAL	$234,100
LOSS =	$ 44,171

Projected Handlings (tonnes)	Projected Sales ($)	Total Revenue ($)	Exp/Tonne Handling ($)	Total Expenses ($)	Net Position ($)
18,000	175,000	189,929	13.00	234,100	– 44,171
22,000	200,000	224,929	11.99	263,900	– 38,971
26,000	225,000	259,929	11.29	293,700	– 33,771
30,000	250,000	294,929	10.78	323,500	– 28,571
34,000	300,000	334,929	10.39	353,300	– 18,371
38,000	350,000	374,929	10.08	383,100	– 8,171
40,000	400,000	399,929	9.95	398,000	+ 1,929

Conclusions: The above Table setting out the position for Elevator Construction Alternative A, shows that handling of approximately 40,000 tonnes (1½ million bushels) and sales of over $400,000 of farm supplies are required to break even. The 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 $1 million. The projected long-run market conditions are similar to those in Alternative A for stocks in store and incidental items. An average handle of 28,000 tonnes and farm supply sales of $250,000 are projected.

REVENUES

Handling Earnings: $6.70 x 28,000 tonnes =	$187,600
Sales Earnings: 20% x $250,000 =	$ 50,000
Storage Earnings: 5,000 tonnes x .65 x .024 x 365 =	$ 28,470
Terminal Earnings: 80¢ x 28,000 tonnes =	$ 22,400
TOTAL	$288,470

EXPENSES

Direct Operating: $4.70 x 28,000 tonnes =	$131,600
Direct Fixed =	$130,000
Overhead & Administration: $2.75 x 28,000 tonnes =	$ 77,000
TOTAL	$338,600
LOSS =	$ 50,130

Projected Handlings (tonnes)	Projected Sales ($)	Total Revenue ($)	Exp/Tonne Handling ($)	Total Expenses ($)	Net Position ($)
28,000	250,000	288,470	12.09	338,600	– 50,130
33,000	300,000	335,970	11.39	375,850	– 39,880
38,000	350,000	383,470	10.87	413,100	– 29,630
43,000	400,000	430,870	10.47	450,350	– 19,480
48,000	450,000	478,470	10.15	487,600	– 9,130
53,000	500,000	525,970	9.90	524,850	+ 1,120

Conclusions: The above table shows that under Alternative B, a handling of approximately 53,000 tonnes and farm supply sales of $500,000 are required to reach the break even point. The facility operations could not repay the capital debt with 28,000 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

Costs to Develop Property for a New Elevator

The costs associated with developing a new site for elevator construction are a significant part of the overall capital development package. The variation in topography, the soil type and the geographic location can create wide variations in site development costs, consequently, each project has to be estimated entirely on its own. It can not be assumed just because development costs are established at one site, these costs will be similar at another. However, to show the significance of such costs, the following example is provided.

Acquiring and Developing a Site to Construct a New Grain Elevator Facility.

Site Dimensions -

- 200 feet x 2400 feet adjacent to rail line. This will accommodate an 18 hopper car spot.
- Cost of land .... $ 20,000

Service Road -

- including culverts, grading, gravel .... $ 40,000

Rail Spur Track Construction for 2400 feet of track -

- 2 turnouts, switches and required track (each turnout includes 100 feet of track)	$ 50,000
- Labour to install turnouts ($6,000 per turnout)	$ 12,000
- 2400 feet of subgrade which includes grading, sub ballast and 6 inches of granular pit run gravel	$ 22,000
- 2400 feet of Top Ballast - top screened defined as clean #1 stone crushed gravel	$ 16,800
- 2200 feet of track materials including, ties, plates, spikes, splice bars and 85 pounds of rail	$ 33,000
- 2200 feet of track construction labour portion	$ 19,000
- Roadway crossing protection signals if required new	$ 30,000
- Roadway crossing protection signals if alterations required	$ 15,000
- Telegraph removal or relocation	$ 4,000

The above items can be summarized in these categories.

	TOTAL	%
- Land acquisition and service road development	$ 60,000	24
- Spur track development	$152,800	62
- Highway or roadway crossing protection assuming new	$ 30,000	12
- Utilities	$ 4,000	2
TOTAL SITE DEVELOPMENT COSTS	$246,800	100

In this example, the cost of rail spur development is - $63.66 per foot of track.

APPENDIX C

Some Answers to Questions about Inflation

You don't have to tell a farmer the $2 wheat of the mid-1970s buys more than the $5 wheat of 1981. He knows it in terms of what he pays for fertilizer, farm machinery and his children's clothes. A dollar buys less today than it used to simply because the prices of goods and services on the average is higher than it used to be.

But while everyone agrees inflation has been occurring, there is a great deal of disagreement and confusion over what inflation actually is, what its causes, how it occurs, and what should be done about it. The directors of United Grain Growers hope this series of questions and answers will provide a better understanding of inflation.

United Grain Growers is indebted to W. E. Hamilton, chief economist with the American Farm Bureau, and John Egolf, an economics teacher at Ethelbert, Manitoba, for their invaluable guidance on the theory of inflation in the preparation of this appendix.

Precisely what is inflation?

Inflation is the increase in the quantity of money. It is measured by a continuing decline in the value of money due to a continuing rise in the average price of all goods and services produced or traded in an economy.

Is inflation the result of rising prices?

Not at all. Rising prices are a *symptom* of inflation — not the cause. It is, however, desirable to make a distinction between the individual price increases that are due to readily identifiable causes and a situation where the average level of all prices rises by a substantial amount year after year.

Prices go up for many reasons which have nothing to do with inflation. Some increases are due to temporary conditions — for example, the price of a farm commodity may go up because production was reduced by bad weather. Other prices may go up as a result of more permanent factors — such as the cost of fuel due to OPEC-induced oil pricing policies.

In a noninflationary environment it is to be expected that there will always be some prices that are rising and some that are falling, but that there will be little net change in the average level of all prices over an extended period. In an inflationary environment the average level of all prices rises year after year, although some prices go up faster than others.

Consumer Price Index

1970	97.2
1971	100.1
1972	104.8
1973	112.7
1974	125.0
1975	138.5
1976	148.9
1977	160.8
1978	175.2
1979	191.2
1980	210.0
1981	242.0*

*** Sept., 1981**

How is inflation measured?

It is measured by observing changes in price indexes which cover a broad sample of prices for goods and services. Many people use the Consumer Price Index (CPI) as a measure of inflation.

As the last three columns in Table 1 on page 10 of this annual report indicate, when the CPI is divided into realized net income the deflated net income is arrived at. This deflated income gives the purchasing power in constant 1971 dollars. This table shows the changing CPI since 1970, and indicates the value of a dollar in 1981 as well less than half what it was in 1971.

What causes the continuing increases in the average level of all prices which we refer to as inflation?

The basic cause is an increase in the supply of money. There is a great deal of evidence that the rate of inflation is a result of the average rate of growth in the supply of money in the period immediately preceding the year for which the inflation rate is being measured. Economists disagree on the length of the preceding period that affects the current rate of inflation. It may be as short as two years or as long as five years.

The important point is that the effect of a change in the supply of money is not necessarily immediate; but the cumulative effect of a continuing growth in the supply of money which exceeds the rate of growth in the supply of the goods and services available for purchase will eventually lead to inflation.

What is meant by terms such as "money" and "the supply of money?"

The term "money" is not as easy to define as many of us would assume on the basis of personal experience. Questions arise as to what should, and what should not, be included. The basic definition of money includes currency and demand deposits (checking accounts) in chartered banks with certain technical adjustments. Other definitions of money include various types of time deposits and savings accounts. The "supply of money," of course, is the total amount — however defined — that is available at a given time.

What causes the money supply to increase and how does it enter the economy?

Only the government has the legal authority to increase the quantity of money.

When newly created money enters the economy, it is portioned out to certain individuals and groups such as government workers, civil servants, welfare recipients, government contractors, teachers, and other beneficiaries. Newly-created money is never introduced into the whole economy at one time. As the recipients receive the newly created money, they value each unit less and are more apt to spend it. As the recipients have more money they can bid more in the market for scarce goods and services. They may buy cars, homes, take trips, or receive other benefits. As the demands for the goods and services of these recipients increase, prices must also increase to meet these new claims for goods and services.

Unfortunately, as the increased quantity of money is passed through the economy, there are those who do not receive the newly-created money or who receive it after their costs of living and doing business have increased. These are victims of inflation.

How does the Canadian government increase the quantity of money?

There are basically three ways in which the Bank of Canada, and its chartered banks, which are under the authority of Parliament, can increase the quantity of money. All three ways are related to interest rates. It is first necessary, though to briefly describe how interest rates are set in the free market.

In the free market interest rates are determined by savers and borrowers with banks acting as middlemen. As individuals tend to save more and spend less the banks will have more money for lending and investment. To attract borrowers, interest rates will tend to be lower. The opposite is also true. If individuals are saving less and spending more, the banks will have fewer funds available and this will be reflected in higher interest rates.

Increased savings and lending will not cause a general rise in prices. Savers have simply transferred some of their purchasing power to the future when the loans are paid back.

Interest rates are not determined by the free market in Canada. One means that can be used to set interest rates is the setting of the *bank rate*. The bank rate is the rate of interest at which the chartered banks can borrow from the Bank of Canada. By setting the bank rate lower than the free market interest rate the chartered banks could profit from the difference in interest rates.

Where would the chartered banks get the money to make new loans? The Bank of Canada created it either by printing it or establishing an account. This is inflation. If there is ever a need for more cash, a chartered bank could present some of its loans with the Bank of Canada for this cash. Presently, the chartered banks are discouraged from borrowing from the Bank of Canada. The banking system uses two other methods of monetary expansion.

The central banking system of Canada or the Bank of Canada and its chartered banks function as a *fractional reserve system.* This means that the banks may keep a fraction of the money that depositors may withdraw. To be more specific let us assume that a bank keeps only 10% of all deposits subject to withdraw. Then for every $10,000 held in reserve a bank may have $100,000 on deposit. The bank can then create $90,000 which is available for loans. In short for every dollar held in reserve, a bank may have $10 on deposit, $9 of which is newly created money available for lending. The fractional reserve system will work as long as all the depositors do not demand their money at one time.

Another method keeps the fractional reserve system "working." The banks cancel each others' checks. If bank A receives a check from bank B, and bank B receives a check from A for the same amount, the two banks cancel each others' checks. There is no need for cash of transfers of cash.

To repeat, a bank operating on a fractional system, assuming a 10 per cent reserve requirement, can increase its deposits up to $100,000 for every $10,000 held in reserve. Of this $100,000, $90,000 may be loaned out. Now suppose that the reserve requirements is reduced to 5 per cent. Then every $10,000 added to a chartered bank's reserve can increase deposits up to $200,000. Of this, $190,000 may be available for lending. The monetary expansion in the loan market will tend to lower interest rates and raise prices.

The third method of increasing the quantity of money and manipulation of interest rates is by *open market operations.* This is the principal means by which the Bank of Canada finances the Canadian government's deficits. The Bank of Canada issues checks to buy government obligations on the open market. When these checks are deposited in chartered banks, they add to the banks' reserves. The banks can, then, create more quantities of money by conforming to the fractional reserve concept. If the Bank of Canada sells treasury obligations, the reserves of the chartered banks will dwindle. The checks are written on the chartered banks' accounts and depletes the amount of money available for lending. However, the Bank of Canada has usually bought large amounts of government securities since World War II.

An example of purchasing government securities will illustrate the potential for monetary expansion. Suppose a chartered bank has $1,000,000 on reserve and is obligated to keep a 10% reserve. It can loan $9,000,000 to borrowers. Let us now assume that the Bank of Canada purchases another $1,000,000 in treasury obligations. When the million dollars are deposited in a chartered bank, the bank can expand its deposits by another $10,000,000 and loan out another $9,000,000. The addition of new money into the banks' reserves will tend to lower interest rates as more money is available for lending.

How does a federal deficit affect the money supply?

When the federal government spends more than it takes in, it has to borrow the difference. If a federal deficit is financed by borrowing from private savers, there is no effect on the money supply. The only thing that happens is that the right to use some existing money is transferred from private savers to the federal government. As a practical matter, however, it is impossible to finance substantial federal deficits without resort to the commercial banks.

Exactly how does the Bank of Canada and its chartered banks handle government obligations?

The usual government securities that the Bank of Canada buys and sells are 90-day treasury bills. All chartered banks are required by law to keep a primary reserve and a secondary reserve. The primary reserve is a percentage of demand deposits and usually a lower percentage of other deposits. The main component of the secondary reserve are 90-day treasury bills.

If the Bank of Canada buys treasury bills, it pays by writing cheques. These cheques are then presented to the chartered banks and in turn add to the primary reserves. This means that the banks have more funds for lending. There will now be a tendency for lower interest rates. This process is inflation. If a Bank of Canada sells treasury bills, the chartered banks or its clients pay by cheque and lowers the primary reserve and banks restrict their loans. Interest rates will tend to rise.

The previous questions and answers indicate that banks can create money by making loans to private borrowers, as well as to the government. Doesn't this also expand the money supply?

It does, but there is an important difference between the use of the banking system to finance private activities and the use of these facilities to finance federal deficits.

The expansion of money by private borrowing is limited by the discipline of the marketplace. Most private borrowing is done to acquire assets or expand production. Thus, private borrowing tends to lead to an increased supply of goods and services, and this tends to offset the effect of monetary growth on the price of goods and services. Non-productive borrowing is limited by the fact that borrowers are generally required to demonstrate their credit worthiness from time to time if they wish to borrow additional funds. Federal borrowing from the banking system tends to be inflationary because it generally increases the supply of money without producing an offsetting increase in the supply of goods and services available for purchase.

What can be done to halt inflation?

The first action the Canadian government can take is to stop increasing the quantity of money. If this is not done, it will mean the ruin of the monetary system which in turn will result in the ruin of the Canadian economy. The great free market economist Ludwig von Mises in describing the terrible inflation in Germany* in 1923 warned: "In the long run, the inflation comes to an end with the breakdown of the currency — to a catastrophe, to a situation like the one in Germany in 1923. On August 1, 1914 the value of the dollar was four marks and twenty pfennigs. Nine years and three months later, in November, 1923, the dollar was pegged at 4.2 billion marks. In other words, the mark was worth nothing. It no longer had any value."

Economic Policy, page 63

Explanation of Pictures on Annual Report Covers

1. The Selkirk Settlers arrived at the Red River Valley, the present site of the city of Winnipeg, in 1812. These were the first farmers in Western Canada. The picture represents the formal takeover from the Hudson's Bay Company of the lands of the Red River Settlement. (Courtesy of the Hudson's Bay Company.)

2. The Prairie's first summerfallow. Bell Farms at Indian Head, Sask., consisting of 64,000 acres, was the biggest farm on the prairies. In 1885, Major Bell sent 50 teams with Middleton's army to fight Louis Riel's forces at Duck Lake, leaving the farm short of men and power for spring seeding operations. The horses never returned until early summer, but the circumstances showed the value of summerfallowing in dryland conditions. The following year was especially dry and the only good crops were produced on land previously left fallow. (Notman Photographic Archives.)

3. The first recorded shipment of wheat from Western Canada left Winnipeg in 1876. The shipment of 857 bushels of Red Fife, going to seed merchants in Toronto, travelled up the Red River by steamboat, via St. Paul to Ontario.

4. Laying CPR track in the Lower Fraser Valley, B.C. in 1883. Notice the round log ties. The railroad, from Winnipeg to the Pacific, was constructed in half the expected time. The Atlantic and the Pacific were joined together by the Canadian Pacific Railway in 1885.

5. This was the first transcontinental train at Port Arthur in 1886. (Manitoba Archives.)

6. The first grain elevator in the West was built at Niverville, Man. in 1878. Capacity: 25,000 bushels. (Western Canada Pictorial Index.)

7. In the late 1800s, many American settlers moved to Alberta by wagontrain. In main, southern Alberta and southwestern Saskatchewan were settled by Americans, and Manitoba and eastern Saskatchewan were settled by people from Ontario and Europe. (Manitoba Archives.)

8. Clearing and breaking bushland in 1900 was hard work for the horses as well as the men. (Western Canada Pictorial Index.)

9. Two inches of Prairie sod being turned under by power plows. Two months later, after partial decomposition, the sod and some earth beneath it was "backturned". (Manitoba Archives.)

10. Stack threshing with a steam engine in 1901. (Manitoba Archives.)

11. Group of grain traders at the Winnipeg Grain and Produce Exchange in 1896. The Exchange was established in 1887 to provide a meeting place where dealers, millers and shippers could transact their business. The Winnipeg Commodity Exchange, as it is now called, remains the only futures trading centre in Canada. (Manitoba Archives.)

12. Farmers, in 1903, ready to ship grain in sacks over the platform. This was before the era of farmer-owned elevators.

13. Farmers at Wolseley, N.W.T., in 1902, wait their turn to unload their grain at elevators. (Saskatchewan Archives Board.)

14. In 1912, the Canada Grain Act authorized the appointment of a Board of Grain Commissioners for Canada. The Board of Grain Commissioners (now Canadian Grain Commission) was created to ensure farmers got honest grades for their grain. (Saskatchewan Archives Board.)

15. Provisional directors of the Grain Growers Grain Company selling shares at the Winnipeg Exhibition in 1906. Left to right: H.O. Ayearst (and daughter), W.H. Bewell, John Spencer, John Kennedy, E.A. Partridge, David Railton, T.W. Knowles.

16. E.A. Partridge led the fight against rail and elevator interests, whose monopolies were dictating the price farmers received for their grain, and was the first president of the first farmers' elevator company, Grain Growers Grain Company.

17. Aaron Sapiro, a fireball missionary for co-operative marketing, from California, helped to organize the pooling system for marketing grain in 1923.

18. Seager Wheeler, a pioneer wheat grower from Rosthern, Sask., won his first World's Championship for his entry of Marquis wheat in 1911. Marquis became, and still is, the standard of milling and baking quality for red spring wheat in Canada. (Manitoba Archives.)

19. A view of Main Street, Winnipeg in 1906. Winnipeg was the springboard for immigrants from Eastern Canada and Europe who railed west from Winnipeg along the Canadian Pacific Railway and Great Northern Railway. (Manitoba Archives.)

20. In 1906, Prairie farmers' stooks of spring wheat provided a crop of 111 million bushels, about 15 per cent of the 1981 crop.

21. The first annual report of the Canadian Wheat Board. Insert shows the policy by which the Board guided its operations. One of the primary tasks of the Canadian Wheat Board, established in 1935, was to dispose of the wheat stocks of the Canadian Co-operative Wheat Producers. Other objectives were to give producers some income protection through the establishment of a guaranteed floor price for wheat, and to give producers the opportunity to obtain the same price for their wheat regardless of when they marketed it in the crop year.

22. A wind-swept granary like this one provides mute evidence of the terrible impact of the drought in the 1930s. (Manitoba Archives.)

23. The Bennet Buggy, a car with pole and doubletree added, was used by farmers when they could no longer afford to buy gasoline. (Manitoba Archives.)

24. The Morris 8-foot horse-drawn Rod Weeder, used in the 1930s, let farmers control weeds in summerfallow without disturbing the soil surface.

25. The Massey Harris 21 was the first self-propelled combine with the capacity and price to suit the average farmer. It was introduced in 1941 just as a government directive converted all farm machinery production to the war effort. A special steel quota let the company build 500 MH 21 combines in 1944, and the famous "Harvest Brigade" was organized. These first 500 combines harvested over one million acres of crop from Texas through the prairies, and with it farmers were introduced to the benefits of combining over threshing.

26. In 1947, for the first time, selective control of weeds in crops became practical with 2,4-D. Earlier, some Sinox was used, but it needed up to 80 gallons of water an acre to effectively work. More than 100 of these Fargo-type sprayers were in use on the prairies applying Sinox or 2,4-D. (Manitoba Archives.)

27. The dust bowls of the 1930s made C.S. Noble, a farmer at Nobleford, Alberta realize a new type implement was needed. His blade cultivator, now known as the Noble blade, tilled the soil without disturbing the stubble.

28. Rapeseed, first grown as a commercial crop in 1943 for a marine oil, but now for a high quality food oil, has become the Prairies' third most important crop after wheat and barley. New varieties of rapeseed, bred for low erucic acid and low glucosinolate content, are now referred to as canola.

29. Farmers began using more anhydrous ammonia, a gas with 82 per cent nitrogen, in the late 1960s. It is the cheapest source of nitrogen and can be injected into the soil in the fall, so the job is done before spring seeding.

30. Swathing, to control losses from sawfly and speed crop drying, was practiced on the Prairies in the late 1920s. The International Harvester Co. made the first pto swathers in 1927. (Saskatchewan Archives Board.)

31. Broadleaf weeds killed by 2,4-D in a grain crop, first are distorted then shrivel up and turn brown.

32. Chemical control of wild oats in a grain crop, for the first time, became possible with the introduction of Carbyne, the first post-emergent wild-oat killer, in 1960.

33. One year later, Avadex, a soil-incorporated chemical which enters the shoot of the young seedling to kill the wild oat before it emerges, was developed.

34. Roundup, introduced in 1976, sprayed on actively growing leaves and stems translocates to roots and underground reproductive tissue killing the entire plant. Tough weeds, such as Canada thistle, quackgrass and field bindweed can be killed and, within a few days, the soil can be seeded safely.

35. Four-wheel-drive tractors, such as the Versatile D-100, introduced in 1965, allowed better traction so farmers could pull bigger machines and cover more acres in less time.

36. The Sperry New Holland TR 75 was the first "new concept" combine. In 1975, it was introduced as a "breakthrough in combine design." Comparative tests have shown axial designs to have higher capacity and reduced kernel damage in grain and oilseed crops than conventional combines.

37. In 1971, the Vermeer Round Baler did for haying what the *combine did* for threshing. It removed the back-breaking job by making bales weighing about 2,000 pounds that were handled by a tractor right from the field to the feedbunk.

38. Country elevators like this one at Dawson Creek, B.C. are built to handle a variety of cereal, oilseed and special crops. They are now equipped with dryers and cleaners. Double driveways allow two loads to be weighed and unloaded at the same time.

39. Production contracts, which guarantee a price and delivery opportunity, have encouraged increased acreage of crops such as sunflowers, lentils, fababeans, canary grass and buckwheat.

40. Most country elevators are now built with 70-foot platforms and high-speed legs to weigh and unload the largest farm truck.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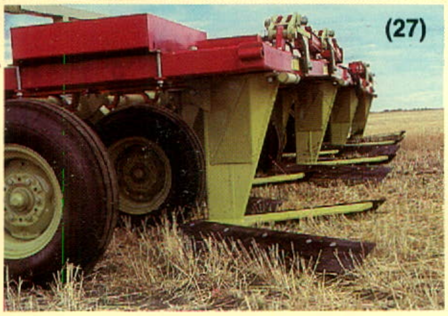
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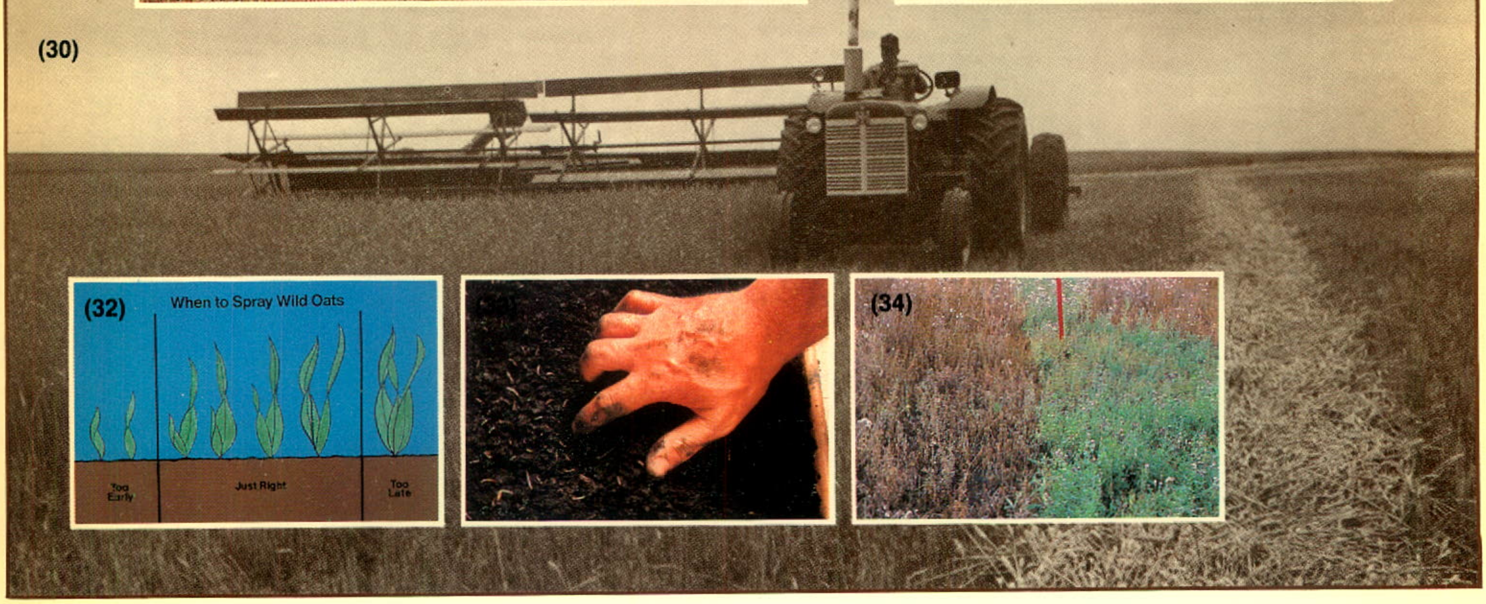
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When to Spray Wild Oats
Too Early
Just Right
Too Late
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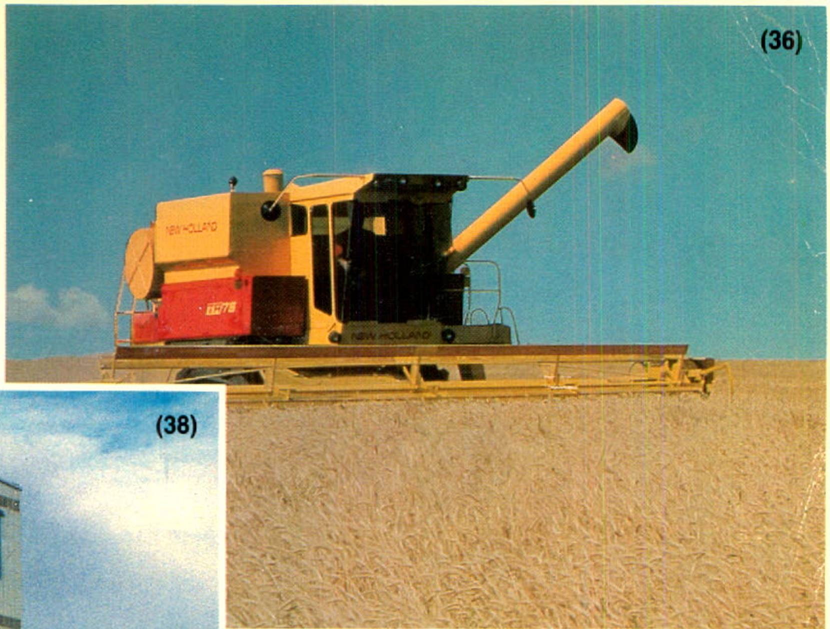

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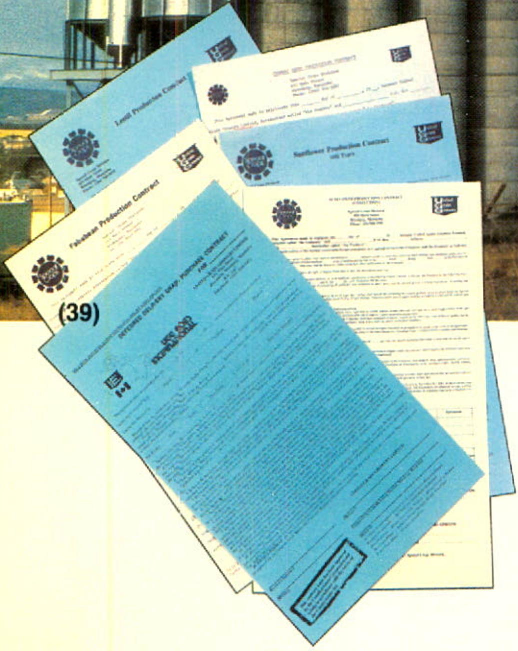

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