ROSE-BREASTED GROSBEAK

To the Shareholders of

76TH Annual Report

For the year ended July 31, 1982

WESTERN MEADOWLARK

BELTED KINGFISHER

CEDAR WAXWING

MOUNTAIN BLUEBIRD

WARBLING VIREO

MOURNING DOVE

AMERICAN GOLDFINCH

16 1982
UNIVERSITY

CLAY-COLORED SPARROW

VESPER SPARROW

SONG SPARROW

CHIPPING SPARROW

VEERY

NORTHERN (BALTIMORE) ORIOLE

LONG-BILLED MARSH WREN

LEAST FLYCATCHER

HOUSE WREN

EASTERN BLUEBIRD

YELLOW WARBLER

GREAT CRESTED FLYCATCHER

YELLOW-BELLIED SAPSUCKER

COVERS: In line with a policy established seven years ago, the directors of United Grain Growers again present a cover to the annual report that they hope will be of interest and permanent use to farm people. In past years, 63 kinds of field crop seeds, 26 breeds of beef cattle, 51 weed seeds, 23 breeds of horses, 44 wildflowers and 45 kinds of birds that overwinter on the Prairies have been illustrated. This year, 42 kinds of songbirds of the Prairies are shown.

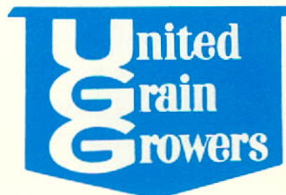
Farm people know and love the beauty of wildthings. Just as they value their comparatively free way of life, so they cherish the freedom of wildthings such as the birds which make the Prairies come alive each spring.

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

Chaucer (1340-1400)

This cover will be reprinted by *The Grain Grower*, your company's farm business digest, and a text describing each will accompany the pictures. A copy of *The Grain Grower* reprint is available at $1.75. Write to Prairie Song Birds, Box 6600, Winnipeg, R3C 3A7. Discounts on quantities of over 50.

United Grain Growers Limited



Associated Companies

United Oilseed Products Ltd.
Prince Rupert Grain Ltd.

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Seated (l. to r.): Allan Smith, W. G. Morken, L. F. J. Hehn, T. M. Allen, D. R. Cusitar
Standing (l. to r.): R. W. Piper, B. F. Spencer, T. J. Mathieson, J. G. Omichinski, D. L. Dobson, Walter Van De Walle, Sam Sych

Board of Directors

L. F. J. Hehn
Markinch, Sask.

Allan Smith
Red Deer, Alta.

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.

D. R. Cusitar
Russell, Man.

R. W. Piper
Elrose, Sask.

D. L. Dobson
Manitou, Man.

T. J. Mathieson
Watson, Sask.

B. F. Spencer
Nobleford, Alta.

Officers

L. F. J. Hehn, *President,* Winnipeg, Man.
T. M. Allen, *First Vice-President,* Taber, Alta.
D. R. Cusitar, *Vice-President,* Russell, Man.
W. G. Morken, *Vice-President,* Sturgis, Sask.
G. D. Moss, *General Manager,* Winnipeg, Man.
J. G. L. Bennett, C.A., *Treasurer,* Winnipeg, Man.
Mike Sherman, *Secretary,* Winnipeg, Man.

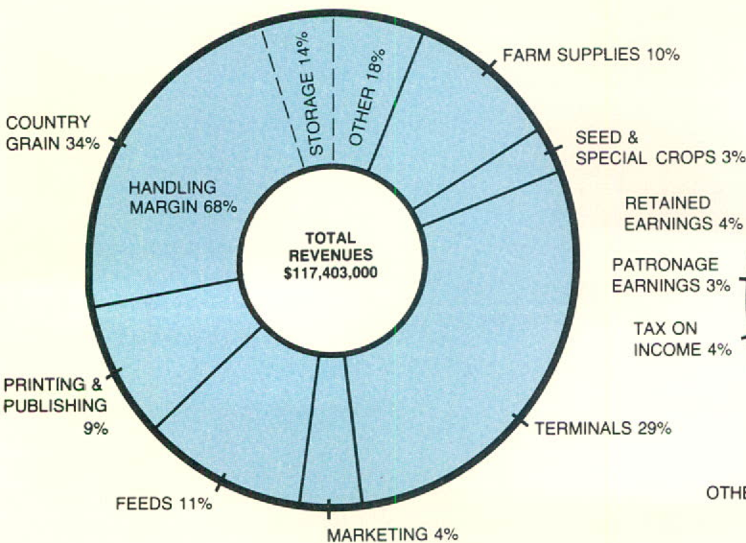
Auditors: Price Waterhouse, Chartered Accountants

Head Office, Winnipeg, Canada.

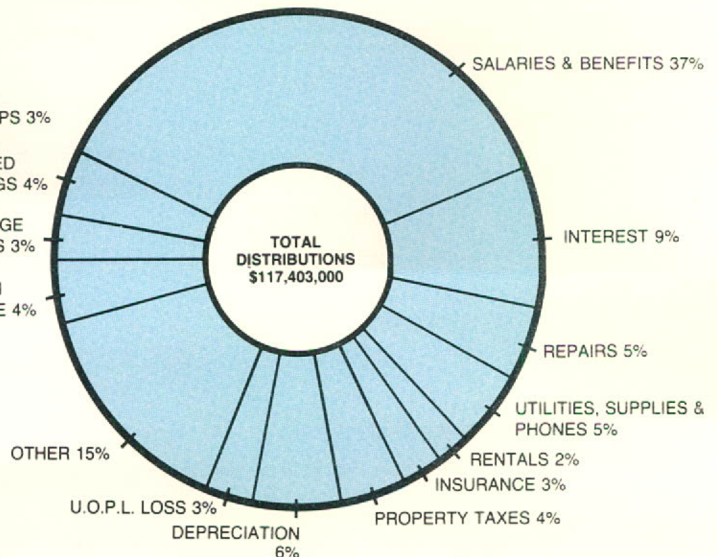
Highlights

	1982	1981
Financial		
Sales and revenue from services	$1,245,694,000	$1,374,576,000
Operating revenues	117,403,000	101,451,000
Earnings before patronage dividends and income tax	16,905,000	10,008,000
Net earnings	4,535,000	7,603,000
Working capital	30,079,000	28,136,000
Capital expenditures	15,141,000	16,565,000
Total investment in fixed assets	165,716,000	152,392,000
Accumulated depreciation on fixed assets	63,364,000	57,354,000
Paid-up share capital	18,640,000	17,320,000
Shareholders' equity	71,786,000	67,142,000
Cumulative total of shareholders' dividends	19,335,000	18,035,000
Cumulative total of patronage dividends, including interest thereon	62,587,000	58,082,000
Statistical		
Country handling — in tonnes	4,646,000	4,256,000
Elevator licensed storage capacities — in tonnes		
Country	1,440,000	1,507,000
Terminals	424,000	424,000
Number of country elevator manager-units (total elevators 510 in 1982 and 553 in 1981)	347	359
Number of shareholders	94,460	93,528
Number of shareholders' locals	288	291

TOTAL REVENUES
$117,403,000 = 100%
Your Company's Operating Revenue of $117,403,000 was earned this way



TOTAL DISTRIBUTIONS
$117,403,000 = 100%
Your Company's Operating Revenue of $117,403,000 was distributed this way



Report of the President

on behalf of the Board of Directors

L. F. J. HEHN
President

The 76th fiscal year was a good one for United Grain Growers. It was the second best year financially in the history of your company, despite severe losses suffered by your associated company, United Oilseed Products Ltd. (UOPL).

Earnings of $16.9 million* were well up from the $10.0 million of the previous year. Record country grain handlings of 4.6 million tonnes and terminal handlings of 3.9 million tonnes were the keys to good 1981-82 results.

After investing $15.1 million in new facilities and $2.0 million as your company's share in the Prince Rupert terminal project, working capital at the year end rose by $1.9 million to $30.0 million.

** Before patronage dividend and income tax, and the losses of UOPL.*

In summary:

- Country elevator operations earned $7.8 million, compared to last year's record $9 million. The country elevator system handled 4.6 million tonnes of grain, exceeding the previous year's record 4.3 million tonnes. While earnings from grain handling were up, farm supply profits were down sharply this past fiscal year mainly due to reduced margins on all products, and to some extent lower volumes. Expenses increased due to heavy bad debt losses and an increase of $1 million in interest expense.

- Record handlings of grain at both Vancouver and Thunder Bay terminals resulted in profits of $8.2 million compared with $4.9 million the previous year. Thunder Bay handled 2.5 million tonnes and Vancouver 1.4 million tonnes, an increase over last year of 18.7 and 27.4 per cent.

- Although combined grain marketing at Winnipeg and Vancouver resulted in a small operating loss for the 1981-82 fiscal year, the financial results were much improved over the previous year. Sales of nearly all grains were lower than the previous year due, in part, to reduced demand for feed grains.

- United Feeds sales were $55.4 million, down slightly from the previous year's record $58.3 million. Better margins on last year's sales, however, resulted in a profit of $1.0 million compared to $0.8 million the previous year. The volume of feed sales this past year was 232,000 tonnes, down from 235,000 tonnes last year.

- United Oilseed Products Ltd., an associated company owned 50 per cent by United Grain Growers, had a net loss this past year of $7.0 million. One half of this loss is recorded in UGG's financial statements. The entire oilseed crushing industry in Western Canada experienced severe losses this past year due to poor crushing margins. These resulted in crushers being whipsawed between a shortage in canola seed resulting in high seed prices, and low canola oil prices tied to low soybean oil prices. Crushing margins were, therefore, negative throughout most of the year. In 1980-81, UOPL had net earnings of $3 million.

- Seed sales this past year were up modestly from the year previous. However, lower margins and higher operating expenses, caused this division to record a loss of $120,000. Last year the division had a small profit of $266,000.

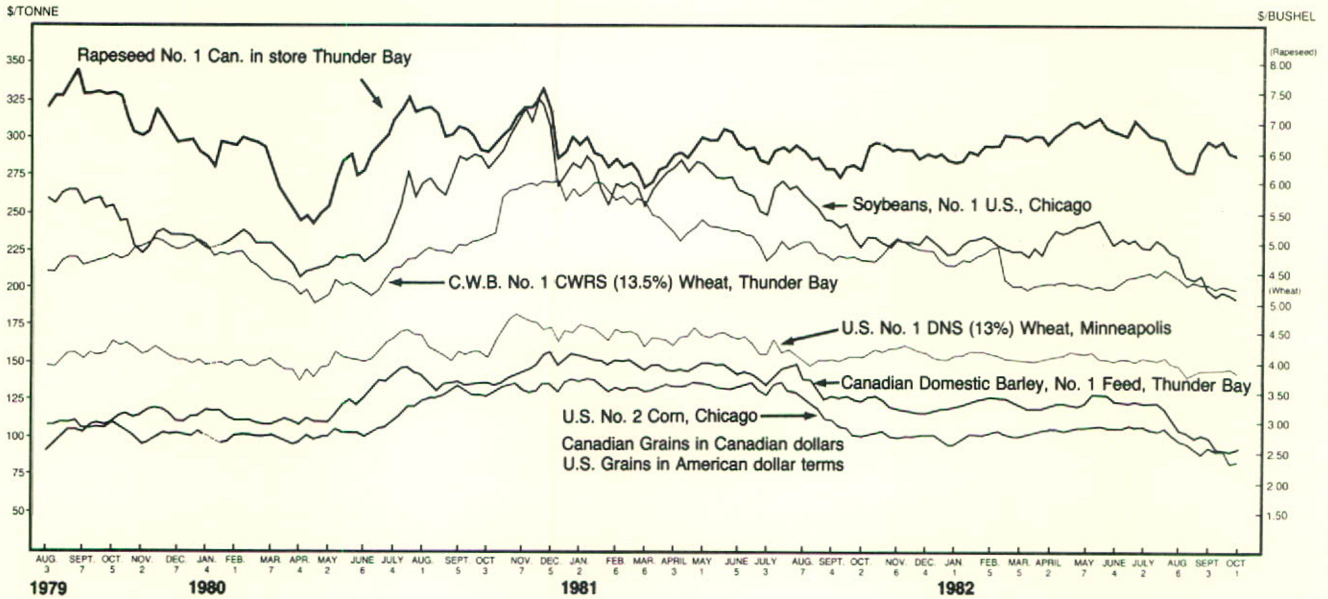
- The Public Press, your printing and publishing division, recorded profits of $728,000, almost double last year's profit of $392,000. The publishing arm of this division contributed all of this increase in profit through record sales of advertising in *Country Guide* and *Cattlemen* magazines. The printing division had increased sales this past year, but due to lower margins and increased expenses a further loss was recorded for 1982.

- The special crops operations, which handles mainly lentils and sunflowers, sustained a loss from reduced sales and smaller margins.

As United Grain Growers enters its 77th year of operation, the outlook for your company appears reasonably favourable. Another record crop has been harvested and handlings of grain in the country and at the terminals should surpass last year's record levels. The directors of your company are, however, uneasy about the current economy of the country, particularly in regard to continuing inflation, the main cause of high interest rates. One of the objectives this next fiscal year will be to continue to increase the company's working capital in order to be in a strong financial position to withstand any economic hardship that may occur.

Although handling of grain in the country and at the terminals could be at record levels in 1982-83, country elevator tariff increases are based on the Government of Canada's recent recommendations based on a 6% and 5% formula. Unfortunately, costs, including wages, are projected to con-

FIGURE 1 — Average Weekly North American Grain & Oilseed Prices



tinue to increase at a rate in excess of 10 per cent. These will tend to reduce profits even if higher volumes of throughput are achieved.

In addition, your company's other operations such as grain marketing, farm supplies, feed, seed, printing and publishing must continue to operate profitably under the pressure of high interest rates. It is becoming increasingly difficult to maintain a reasonable return on the company's investment at interest rates in excess of 15 per cent, given current inflationary pressures.

The impact of continued high inflation accompanied by high interest rates has put additional pressures on some of your company's customers who have suddenly found they could no longer pay their accounts. In 1982 bad debt losses exceeded $1.0 million and if the present trend continues into 1983, this figure could be higher. Your company has already taken additional measures to ensure the collection of its accounts with a minimum of loss due to non-payment.

Record levels of production and exports were established for Western Canadian grains and oilseeds in 1981-82.

Prairie farmers produced 42.4 million tonnes of grains and oilseeds. This compared to 33.8 million tonnes harvested the previous crop year and up substantially from the previous record of 37.6 million tonnes produced in 1978.

Exports of grains and oilseeds totalled 26.1 million tonnes, up 20 per cent from the record established during the 1979-80 crop year. Individual records were established for wheat, durum wheat, barley and rye.

Wheat exports of 15.7 million tonnes, up 2.2 million tonnes from the previous year, is the highest volume in history. Increased amounts went to the USSR, the People's Republic of China, Poland, Egypt and Libya. Japan and the United Kingdom imported about the same volume as the previous year.

Durum wheat clearances totalled a record 2.3 million tonnes or 11 per cent more than the previous high achieved in the 1980-81 crop year. The USSR remained the largest customer. Other importers included Algeria, Italy and Poland.

Oat exports were 48,000 tonnes, up slightly from the previous year. United States, USSR and Cuba were the major customers.

Barley exports totalled a record 5.7 million tonnes. This is 17 per cent higher than the record set during the 1971-72 crop year. The USSR purchased nearly one-half of the total to become the largest importer. Other major customers included Japan, Italy, Spain and Israel.

A new record was also established for rye. Exports of 547,000 tonnes surpassed the previous crop year record of 446,000 tonnes. The USSR imported 81 per cent of the total rye exports.

Exports of flaxseed declined to 401,000 tonnes from 519,000 tonnes shipped during the 1980-81 crop year. The major customers were the Netherlands, Japan and West Germany.

TABLE 1 — Farm Net Income For The Prairie Provinces (1971 - 1982)
('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)
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	7,164,992	88,549	0	7,253,541	5,260,120	1,993,421	191.2	1,042,584
1980	7,882,442	87,505	31,072	8,001,019	6,083,595	1,917,424	210.0	913,059
1981	9,413,967	92,114	105,903	9,611,984	7,094,230	2,517,754	248.0	1,015,223
1982*	9,446,900	97,300	-	9,544,200	7,734,300	1,809,900	267.0	677,865

*1982 incomes and expenses are estimates based on several criteria. In general, compared to 1981, grain prices were down but deliveries were up. Beef prices were up slightly and hog prices were up considerably, while grain carryover into the 1982-83 crop year up a little from a year ago.

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 tthe 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.

Clearances of rapeseed were down 20,000 tonnes from the previous year to 1.4 million tonnes. Japan remained the largest customer and took 89 per cent of the total. Shipments to western Europe declined by more than 50 per cent.

Early estimates by United Grain Growers show Prairie farmers' real income in 1982 will drop by 28 per cent from 1981. Good yields and high deliveries of grain kept incomes from falling further, as farm gate prices for grains dropped below the cost of production in late 1981 and remained there for most of 1982. When the income for 1982 is adjusted for inflation, farmers will earn only slightly more than they did in 1971 — the lowest year of earnings in the last decade.

Revised Statistics Canada figures for 1981 show realized gross income was up $1.611 billion, while expenses rose $1.917 billion to $2.518 billion. In deflated 1971 dollars, income on the Prairies went from $0.913 billion in 1980 to $1.015 billion in 1981.

For the 1982 calendar year, the gross income of Prairie farmers will be down $0.068 billion while costs are up $0.640 billion. Therefore, realized net income for 1982 will be down $0.708 billion compared to 1981. Taking inflation into account, farm income in 1982 in deflated dollars was $0.678 billion. As shown in Table 1, that was $0.337 billion down from 1981, and the lowest income in deflated dollars since 1971. Comparing the purchasing power of today's dollar to the deflated dollar, what a farmer could buy for 37¢ in

TABLE 2 — Operating Expenses And Depreciation Charges For The Prairie Provinces (1971 - 1981) ('000' of dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Taxes[1]	67,979	65,025	63,066	65,133	76,900	88,614	95,480	103,407	109,332	123,122	132,972
Gross farm rent[2]	83,600	89,182	159,749	158,179	187,738	212,728	226,906	271,191	338,738	439,036	481,023
Wages to farm labor	86,388	92,318	112,298	134,136	163,328	175,460	188,154	198,876	223,231	273,519	286,070
Interest on debt[3]	132,943	158,219	170,048	243,555	274,357	349,037	368,918	466,973	679,253	805,903	1,101,730
Total machinery expenses	339,513	375,337	439,870	539,630	598,831	668,925	726,874	802,825	887,000	1,018,030	1,268,219
Petroleum products[4]	156,273	164,873	182,174	216,741	239,072	289,611	332,006	370,734	419,809	479,721	635,833
Repairs and other[5]	183,240	210,464	257,696	322,889	359,759	379,314	394,868	432,091	467,191	538,309	632,386
Fertilizer and lime	57,338	66,820	91,435	135,476	215,798	229,020	249,831	345,329	455,659	514,367	637,514
Other crop expenses[6]	59,239	68,878	85,810	127,700	157,482	174,300	198,477	264,251	337,688	355,837	405,765
Feed[7]	92,190	106,814	168,611	239,535	231,797	249,646	260,865	243,078	313,734	405,367	444,765
Other livestock expenses[8]	40,572	60,136	69,772	84,423	78,403	94,960	109,948	172,309	252,388	239,601	195,067
Repairs to buildings	30,585	38,319	48,013	63,941	74,609	87,763	73,445	79,717	86,614	88,607	96,316
Electricity and telephone	51,813	55,237	59,506	63,841	70,617	80,268	91,940	102,496	114,704	123,013	132,230
Miscellaneous	92,850	107,197	117,329	135,235	133,818	212,410	203,940	217,418	333,433	397,812	472,093
Total operating expenses	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	4,784,214	6,653,764
Depreciation on buildings[9]	31,783	34,685	42,076	54,426	69,084	81,502	84,450	92,627	117,210	146,513	150,285
Depreciation on machinery[9]	273,940	285,943	313,720	409,965	561,178	700,054	729,897	877,674	1,011,136	1,152,868	1,290,181
Total operating and deprec.	1,440,733	1,604,110	1,941,483	2,445,175	2,894,020	3,404,687	3,609,125	4,237,811	5,260,120	6,083,595	7,094,230

[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 feeds, 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.

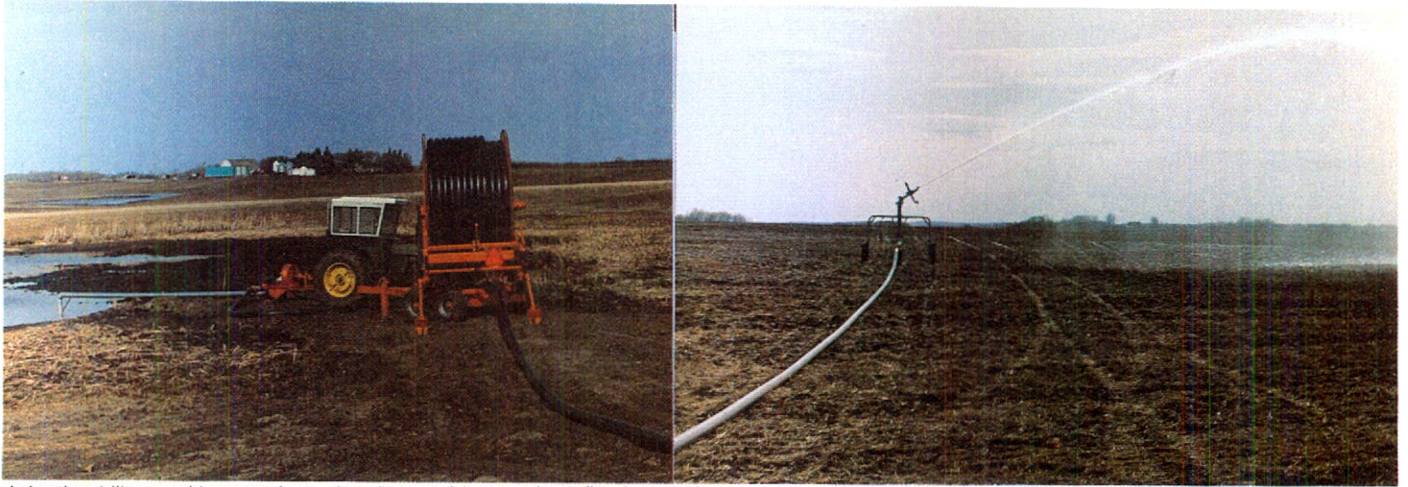
1971, costs him $1.00 in 1982.

Several categories of expenses rose by more than 20 per cent from 1980 to 1981. For example, the cost of interest on debt jumped 37 per cent from 1980 to 1981, petroleum prices went up 33 per cent, the cost of repairs was up 17 per cent, and fertilizer costs rose 24 per cent.

From 1981 to 1982, the general increase in costs was about 9 per cent, but gross income dropped 7/10 of one per cent. The big drop in income from 1981 to 1982 was the result of a number of factors related to income from grain: there was a final payment of only $0.549 billion in 1982, compared to $0.730 billion in 1981; and in 1982, there was a lower initial price throughout the year, no interim payments, and a higher carryover.

Farm income in 1982 varied from province to province. Realized farm income dropped 36, 24 and 15 per cent in Saskatchewan, Manitoba and Alberta. Farmers in Saskatchewan were hurt most by the low grain prices, low final payments and increasing carryover. In Manitoba and Alberta, the drop in income from grain was offset partly by increased income from cattle and hogs.

There was brisk movement of the 1982 crop early in the 1982-83 crop year, but at low initial prices. The



Irrigating hilltops with water from sloughs provides two benefits: low areas normally too wet can be seeded; and higher yields are obtained on droughty hills.

effects of an early frost on cereals and oilseeds will be felt in 1982 and 1983, as many farmers' crops suffered at least some weight loss and a drop in grades. Feed grain prices remained depressed in early fall, with expectations of another large corn crop in the U.S.

Livestock producers and, in particular, hog producers, recovered previous years' losses as meat prices were up from a year ago, and feed prices remained low.

Table 1 gives an historical overview of farm incomes on the Prairies. The last three columns are the most revealing. They show the impact of realized net income divided by the Consumer Price Index to give a deflated net income.

For example, in 1981, the $2.517 billion of realized net income is worth $1.015 billion in 1971 dollars. While that income is a slight increase over the years 1979 and 1980, it was only a temporary rise as the incomes of Prairie farmers in 1982 continued the downward trend started in 1975.

Looking at the decade from 1971 to 1981, 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 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 and 1979, leading to good cash flows as costs lagged. Net income in today's dollar and in 1971 dollars climbed.

Net income remained high in 1980 as farmers sold grain from inventory at good prices. The drastic tumble in prices in late 1980 continued through 1981, but high final payments and an interim payment kept cash receipts and net incomes high.

Increasing input costs have been a major concern to Prairie farmers. Table 2 shows a consistent climb in farm production costs since 1971. 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 from1969 to 1971. Since then, with higher rates on more debt, interest costs have escalated. These 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 1975, interest costs were 45 per cent of total machinery expenses. In 1981, these costs were about 87 per cent of the machinery costs. These two expenses made up about 38 per cent of the cash costs for farmers in 1980, and 42 per cent in 1981.

Fertilizer costs are the third highest farm expense. With higher use and rising prices, the dollar value of fertilizer used has increased 260 per cent from 1977 to 1981.

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, 17 and 32 per cent in 1978, 1979, 1980 and 1981, 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

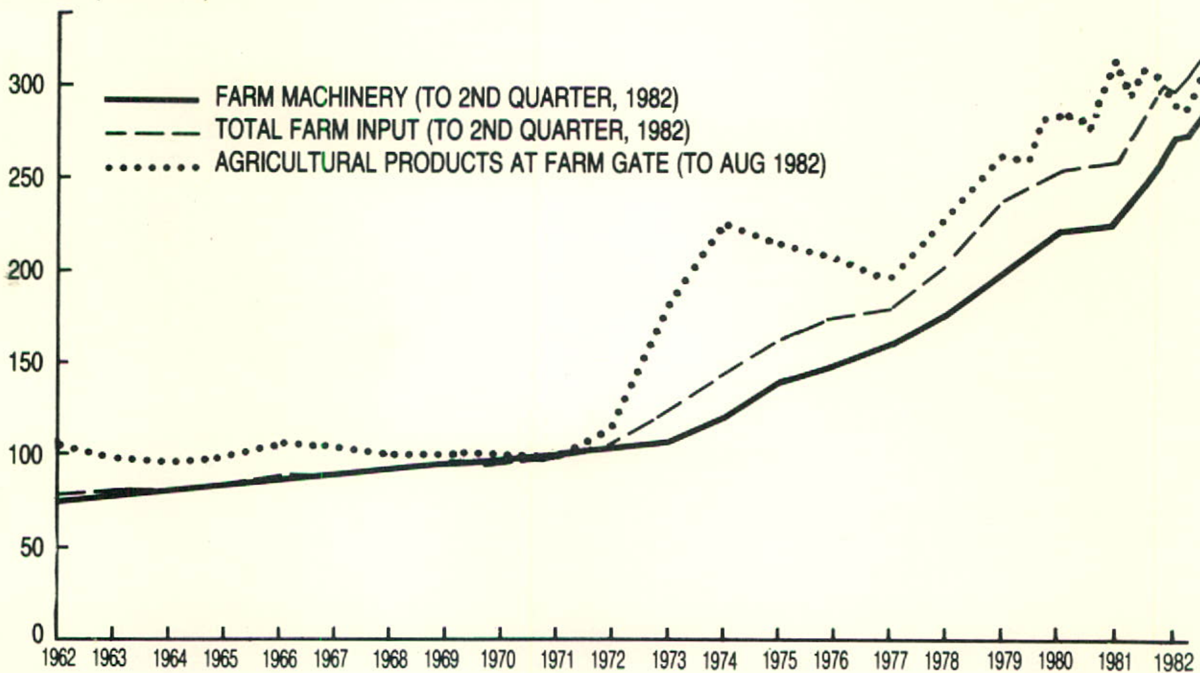


FIGURE 2 — Annual Price Indexes, Western Canada, 1962-82

rising farm prices and a good crop. Some areas in each province harvested poor crops due to drought or frost. 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 attractive rates. The expanding farmers are faced with cutting back credit, by buying less or selling off highly financed assets.

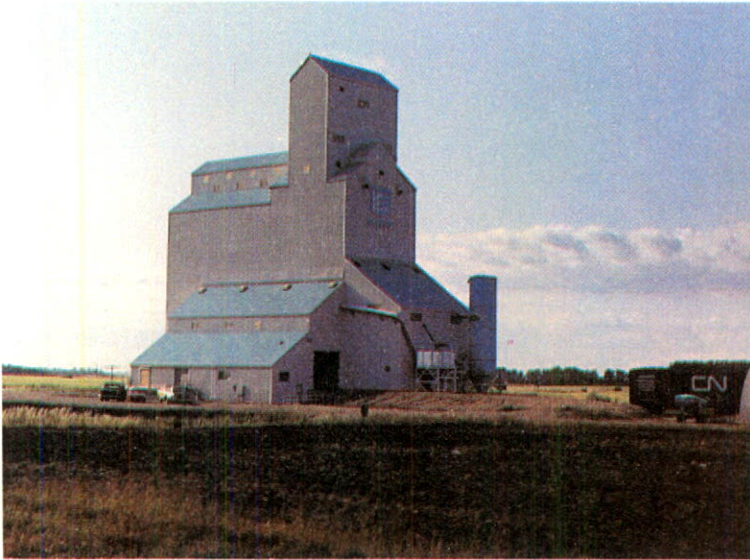
Statistics from Prairie lenders show the percentage change in equity of farmers has remained the same over the last few years. However, two equity levels are becoming more evident. The equity in the farm industry is 85, 83 and 90 per cent for farmers in Manitoba, Saskatchewan and Alberta. However, from 1980-81 to 1981-82, the equity for the newer farmers has dropped three per cent in Alberta, and one per cent in Saskatchewan and Manitoba. The drop in equity was because debt for beginning and expanding farmers rose faster than farm equity.

Farm equity in 1981-82 is 54, 55 and 43 per cent for the newer farmers in Alberta, Saskatchewan and Manitoba. The low equity in Manitoba explains, in part, the highly publicized bankruptcies among farmers in that province.

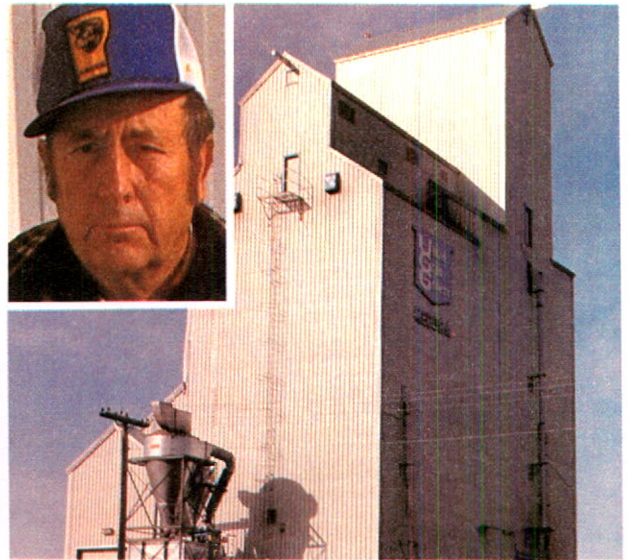
Figure 2 shows how the prices farmers receive for commodities compared to the prices they pay for goods. Generally, prices at the farm gate have kept ahead of the total farm input costs, but the chart does not reflect crop yields and total incomes. The gap between prices of inputs and farm gate prices started to narrow in 1979 as prices for inputs climbed faster than prices received, then widened briefly in 1980. In late 1981, and for most of 1982, prices received at the farm gate dropped below the prices of farm input costs. The long-term increase in production and brisk deliveries of grain kept the 1982 income in deflated dollars from falling below the income of 1971, which was the lowest income in the last 10 years. Less deferred income into 1983 also kept cash receipts up in 1982.

The 1983 calendar year looks bleak for many Prairie farms as the outlook for grain prices remain weak. Even if prices hold at present levels, prospects of higher operating costs and less deferred income means the cash flow on the Prairies will be squeezed still more in 1983.

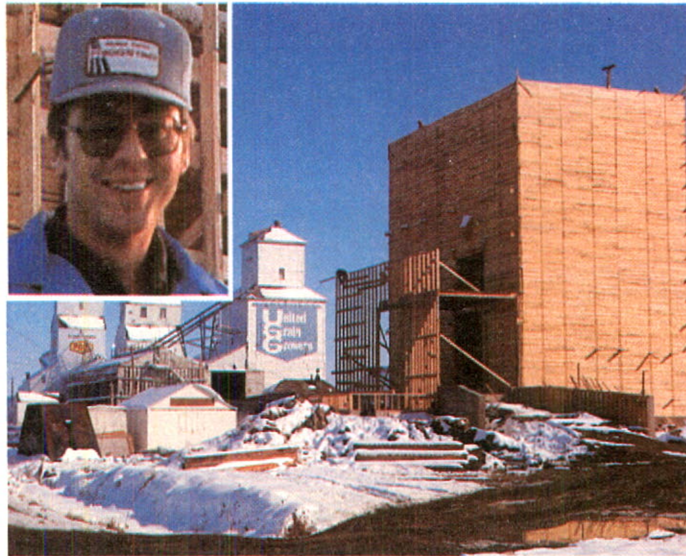
Slumping land prices, evidence of high interest rates and weak grain prices, are worsening the situation for farmers who mortgaged land in the 1970s. The directors of United Grain Growers commissioned a special study of Prairie land prices and it appears in Appendix D.



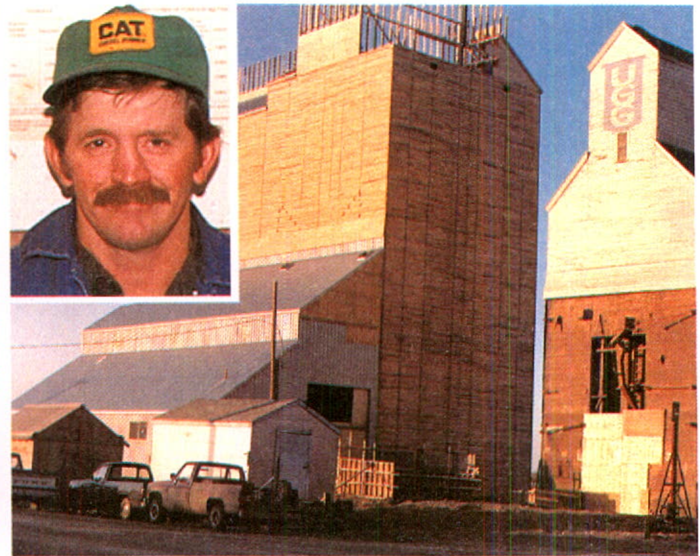
Melfort, Sask.



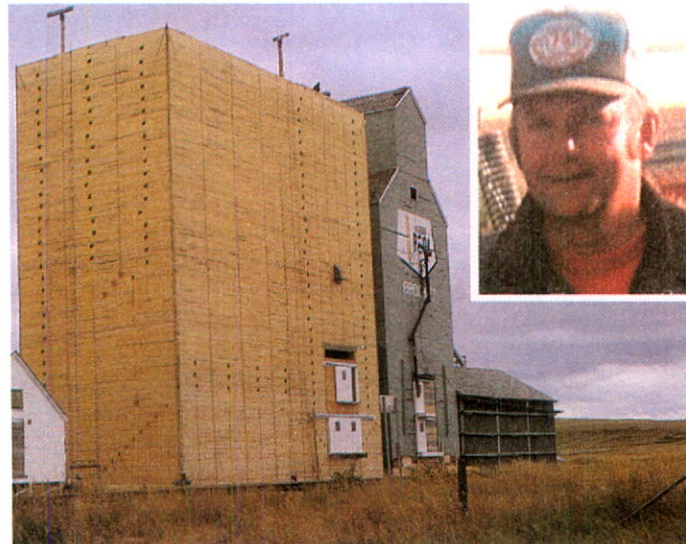
Medora, Man. — Maurice Van Daele, Chairman



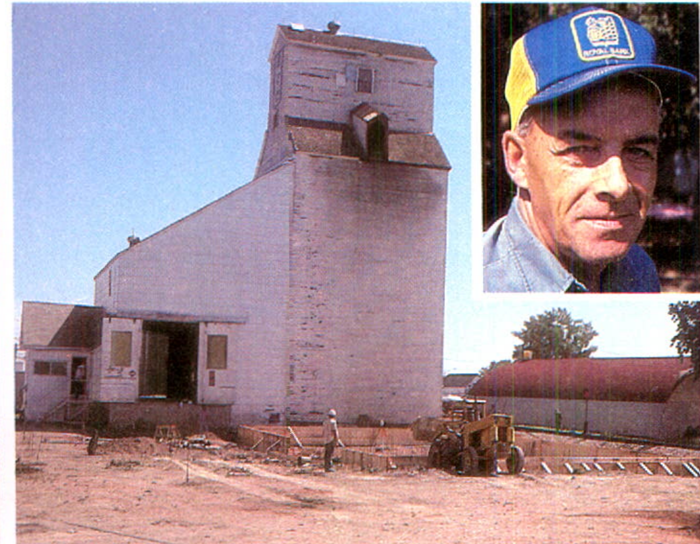
Woodrow, Sask. — Greg Waldbauer, Chairman



Porcupine Plains, Sask. — H. W. Hill, Chairman



Brocket, Alta. — R. U. Milligan, Chairman



Shoal Lake, Man. — R. M. Jenkins, Chairman

Operations Review

Country 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 73 points in Manitoba, 140 in Saskatchewan, 139 in Alberta and 3 in British Columbia during the 1982 fiscal year.

The total capacity of the UGG country system, as licensed by the Canadian Grain Commission, is 1.4 million tonnes.

The country operations division of United Grain Growers is responsible for the development and operation of its primary elevator system. The division operates under the board of directors' policy to maintain operating standards consistent with the company's position as a progressive farmer-owned grain handling service. Providing good service, of course, requires co-ordination and a well-defined planning strategy.

The 1981-82 fiscal year plans were set well in advance. In April, 1981, before the completion of seeding, the plans for the country operations division were established. These plans were developed on the heels of the 1980 short crop in Manitoba and a large part of Saskatchewan.

Market reports indicated good opportunity for exports of Western Canadian grains. The Canadian Wheat Board was striving toward its 30-million-tonne export target by 1985. Transportation capability was on the increase with further additions of hopper cars and power units. The forecast for seeded acreage in Western Canada indicated a sharp increase. Within this framework, plans for the division were drafted.

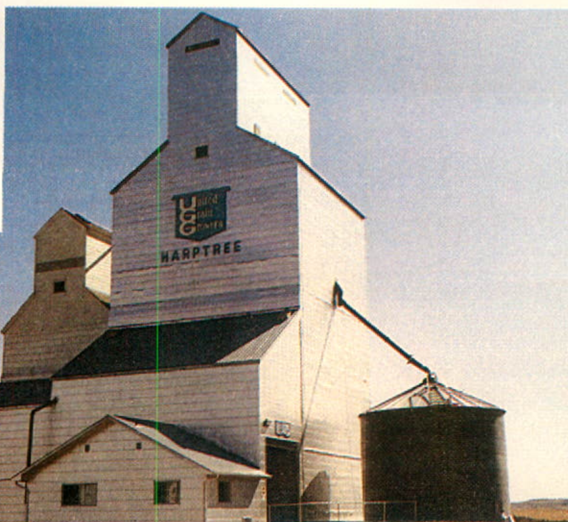
In this report, the projections developed during planning are compared to the ultimate result. Handling by United Grain Growers in the 1981-1982 crop year were projected to be 4.5 million tonnes. Actual tonnes handled reached 4.6 million tonnes, up from the previous year's actual by .4 million, an increase of nearly 8 per cent.

Deliveries in the three provinces were, Manitoba 1.0 million tonnes; Saskatchewan 1.8 million tonnes; Alberta and B.C. 1.8 million tonnes. The tonnage handled represents a record for United Grain Growers. The record 1981 crop, supported by signif-

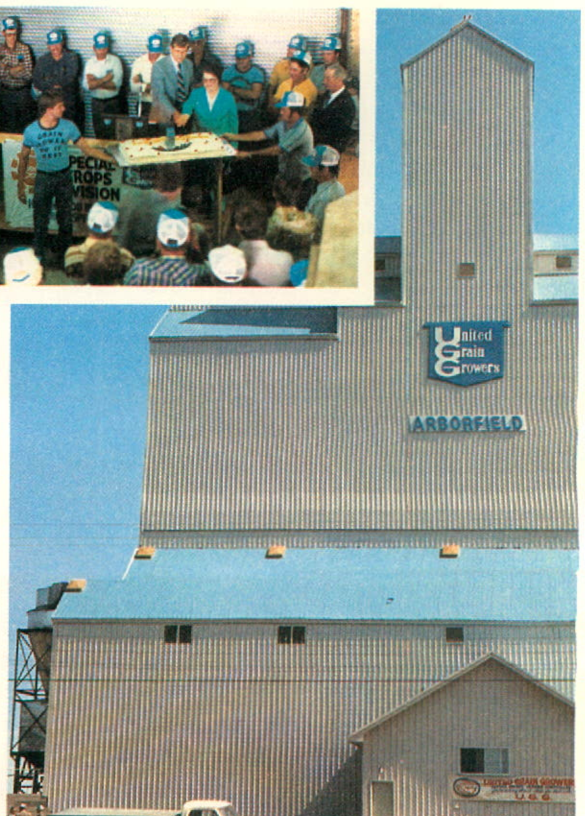
** Elevators perform an essential function in the movement of grain. In a sense, they are a public utility and have been so recognized in the statutory declaration that Canadian elevators are "works for the general advantage of Canada."*

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 canola, flax, rye, feed wheat, feed barley, feed oats and certain special crops grown under contract, and keeps a stock for domestic trade. At its terminal elevators, United Grain Growers also owns some grain and screenings in its capacity as a merchant.

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



Harptree, Sask. — Norman Kemp, Chairman



Arborfield, Sask. Cutting the cake to officially open the elevator

icant transportation improvements, good labour relations, and excellent sales, allowed your company to exceed its early expectations.

Grower deliveries remained reasonably constant throughout the year. These continuous timely deliveries played a major role in providing the proper grains and grades to meet sales requirements for the year.

The plan of operations called for a profit of $8 million.

The increase in grain volume over budget, did not quite offset the reduction in farm supply sales. As a result, the elevator division generated a profit of $7.76 million, or $240,000 under the original projection.

Profits have been plowed back into the elevator system. UGG's original plan called for expenditures of $12.6 million in capital improvements, new facilities, and maintenance and repair. During the year, $10.5 million was spent on upgrading facilities and a further $3.0 million was spent on maintenance and repair. This provided a total expenditure of $13.5 million for improvements in the elevator system.

Capital Construction. The number of projects your company can undertake in one year, is directly related to earnings. Construction costs during the year, continued to increase.* The cost of a new composite elevator with 3500 tonnes capacity is now over $1 million. A major overhaul of an existing elevator, which includes a new driveway, scale and office, costs as much as $350,000. New market development costs are as high as $1.75 million for farm supply facilities, land, trackage and new grain handling facilities.

See appendices A and B for details

A new type of grain protein analyzer is being tested for use at country elevators. An unground sample of wheat poured into the hopper gives a protein content readout in about 30 seconds.

New elevator construction was completed at Nampa, Alta., at Medora, Man., and at Arborfield, Harptree and Melfort, Sask. A new elevator under construction at High Prairie, Alta., was destroyed by fire. New elevators are currently under construction at Brocket, Alta., at Porcupine Plain, and Woodrow, Sask. and at Shoal Lake, Man. Major renovations and scales were completed at Deloraine, Gilbert Plains and Petrel, Man., and at Barons, Alta. Major renovations are currently underway at Manning, Alta.

There were 28 dust collector units installed during the year. This brings the total number of elevators equipped with dust collection equipment to 281. The installation of dust collection equipment will continue each year, until all key operating plants are equipped.

Fire Losses. Four facilities were lost to fire during the year. Two of these stations had been closed for some time: Farrow, Alta. and McMorran, Sask. A third station, Manola, Alta. was assumed to be started by lightning. The cause of the fourth fire, a new facility nearing completion at High Prairie, Alta., has not been established to date, but arson is suspected.

Expenditures incurred during the year by project type were as follows:

Project type	Amount
• New elevators	$4,131,000
• New storage annexes, etc	129,000
• Major renovations and scales	915,000
• Market penetration	936,000
• Dust collection equipment	533,000
• Farm supplies general	66,000
• Farm supplies bulk blend plants	1,992,000
• Dwellings	382,000
• Miscellaneous	1,420,000
• Maintenance and repairs	3,000,000
	13,500,000

Closures and Trades. Six stations were closed during the year. These stations were at Handsworth, Struan, Craik, Vantage and Arelee, Sask. and at Nanton, Alta. Handsworth, Struan and Arelee closed because of rail abandonment. Nanton closed as a result of a trade with Alberta Wheat Pool. UGG accepted the Pool's facilities at Joffre in exchange for our facilities at Nanton. An exchange with Parrish & Heimbecker during the year, provided UGG with P & H facilities at Watson, giving your company a second plant at Watson in exchange for the closed facilities at Arrowwood, Alta.

In the last decade, significant changes have taken place in the Prairie country elevator network. The total system has reduced from 3,240 manager units in 1972-73, to 2,075 manager units in 1981-82 — a reduction of 1,165 service outlets. That represents a reduction of 36 per cent over the past 10 years.

UGG, in comparison over the same period, reduced from 492 to 347 manager units, a reduction of 145 units, or 29 per cent. These figures illustrate that United Grain Growers has not reduced its service outlets as rapidly as the trade in total.

Economic factors such as high interest rates and increased operating and fixed costs, as a result of inflation, continue to guide the consolidation of your elevator operations. The country division's plan is to eventually consolidate to units with average handlings per unit over 15,000 tonnes, ranging from 11,000 tonnes to 50,000 tonnes.

In concert with the grain handling, farm supply sales are expected to exceed $250,000 per unit. The number of service outlets will depend on Canada's success in improving the economic climate. If high rates of inflation and interest rates continue, it may be necessary to accelerate the pace of consolidation of country elevators.

Significant investment in recent years, has gone into improvement of your country elevator system: $10.5 million in 1981-82, $9.8 million in 1980-81, and $7.4 million in 1979-80. It is the company's intention to continue to improve the system as rapidly as capital allows.

United Grain Growers now operates in the big Lethbridge terminal elevator and provides a complete grain and farm supply service.

Many types of projects are required. New elevators, additional storage, major renovations, spur track expansions for improved car spots, and improvements to farm supply sheds and fertilizer facilities, are some of the major needs. With new elevators now costing $750,000 and up, depending on capacity, site location and rail service, operating performance controls the process of development.

Maintenance and Repair. Maintenance and repair requires a budget of $2.5 to $3.0 million annually. Special emphasis is continually being placed on design features that will reduce maintenance and service costs. To preserve and improve the exterior appearance of elevators, $380,000 was spent on the paint program — during the year, 32 elevator facilities were painted. The average cost to paint one elevator facility is $12,000. The year previous, $523,000 was spent on painting 55 units. All major projects and new facilities are sided

with metal siding, which will not require painting.

Country Dwellings. There are now reasonably good dwellings at most permanent locations. The company has 348 dwellings across the system. An estimate this year placed a value of $11 million on this property or $32,000 per unit. It is planned that a few dwellings be built each year to maintain the facilities in acceptable condition.

Anhydrous Ammonia. Use of anhydrous ammonia continues to grow. New market outlets will be established as market growth suggests adequate volume to justify the capital investment. Outlet development costs run at $230,000 per unit. United Grain Growers operates anhydrous service at 18 market locations.

Bulk Fertilizer Storage. Ten new bulk blending plants were constructed during the past fiscal year. One plant was purchased from a competitor and upgraded. UGG now has bulk blend facilities at 37 market locations. These plants currently cost $200,000 to build. Further construction of these facilities is planned as market areas indicate the business volume to support the investment. These facilities are proving very popular with the membership where they are located.

Construction Plans. Current 1982-83 year's construction plans call for start-ups on new elevators at High Prairie and Holden, Alta.; at Tribune and Landis, Sask.; and at Newdale, Man. These start-ups will be dependent on the progress of projects currently underway.

Additional storage and storage improvements are planned for Grassy Lake, Hobbema and Penhold, Alta.; and for Alameda and Willowbunch, Sask. Major type renovations are planned for Blackie, Brooks, Camrose, Delia, Rosalind, Turin, Warner, and Drumheller, Alta.; for Fox Valley, Sask.; and Ste. Anne, Man.

Grain Market Services. UGG continues to provide several pricing services on open market grains through the use of Deferred Delivery Contracts. These contracts are available throughout the year, on the six major grains. Corn is also included in the program for certain delivery periods.

Protein Testing. A new type of grain protein analyzer is now being tested for use at country elevator locations. If the results are satisfactory, more protein testers will be forwarded to country elevator stations. This equipment costs approximately $9,000 per unit. At the present time, your company has 35 protein analyzers in service.

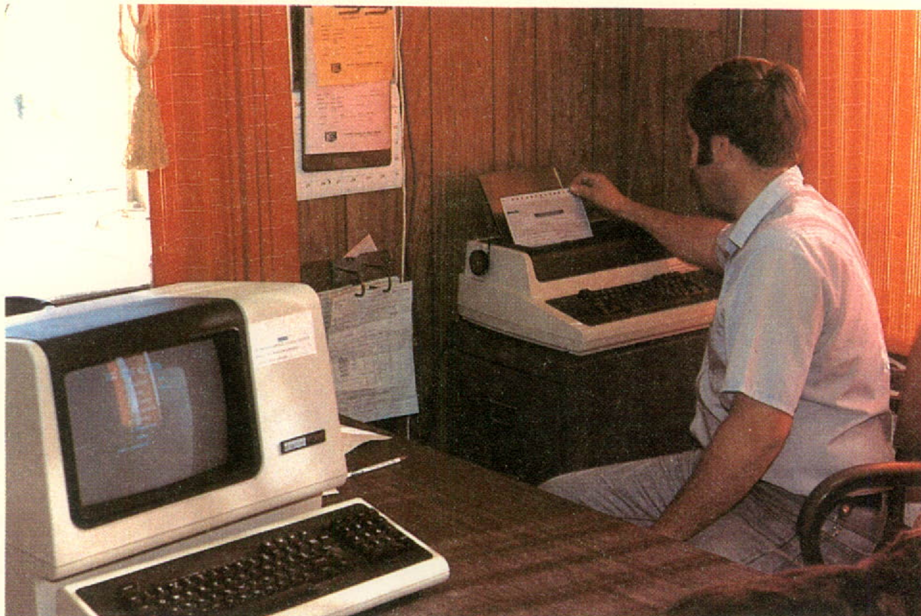
Computerization of Country Elevators. United Grain Growers currently has five test stations on the computer system, which documents all transactions right at the elevator. This system is proving very successful in providing faster and more effective service to customers.

Plans are in motion to install 55 more units in the current fiscal year. The rate of installation thereafter, will be dependent on capital availability. It is hoped that 225 units will be operating within the next three years, at a total cost of $6 million. These units currently cost $27,000 each.

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

	1978-79	1979-80	1980-81	1981-82
Millions of Tonnes Handled	3.61	4.24	4.26	4.65
Elevator Costs per Tonne Handled				
DIRECT OPERATING EXPENSES				
Salaries — including assistant managers, casual help, overtime, bonuses and benefits	$2.68	$2.47	$2.76	$2.93
Moving, travel, meetings	.04	.04	.04	.04
Repairs	.64	.65	.63	.66
Annex unloading	.06	.05	.05	.05
Insurance (grain and merchandise)	.13	.15	.19	.18
Heat, power and water	.16	.14	.16	.18
Postage, stationery and supplies	.03	.04	.05	.06
Phone, wire, telex	.05	.04	.04	.04
Bank charges	.05	.04	.06	.07
Interest on current operating funds	2.40	3.20	3.67	4.08
Miscellaneous	.06	.06	.07	.07
	6.30	6.88	7.72	8.36
	63%	67%	68%	69%
DIRECT FIXED EXPENSES				
Property rentals	.06	.05	.05	.05
Building insurance	.19	.18	.20	.22
Taxes	.44	.54	.54	.55
Interest on capital investment	.46	.28	.33	.35
Depreciation	.48	.47	.51	.53
	1.63	1.52	1.63	1.70
	16%	15%	15%	14%
Administration and overhead	2.06	1.83	1.96	2.05
	21%	18%	17%	17%
TOTAL COST	$9.99	$10.23	$11.31	$12.11
	100%	100%	100%	100%

Elevator Managers Handling Awards. Elevator managers receive recognition when handlings exceed specified tonnages during the crop year. There are three defined categories. A Gold award is given to elevator managers who handle 25,000 tonnes or more. A Silver award is provided elevator managers who handle over 20,000 tonnes. A Bronze award is given to managers who handle over 15,000 tonnes. The managers who received these awards in 1981-82 are listed in Appendix C of this report.


UGG is spending $6 million to install computers in 225 elevators over the next three years. The computers will document all transactions right at the elevator and provide faster and more effective service for customers.

Farm Supplies Operations

Following a record-setting pace the previous year, farm supply sales in the 1981-82 fiscal year were a disappointing $55 million. The very competitive market reduced total volume of sales and margins were thin. Fertilizer sales volume was down 0.5 per cent, chemicals 20 per cent, twine 20 per cent and miscellaneous products 28 per cent.

High interest rates and low grain prices, coupled with a late spring, kept sales on a progressively downward slide right into May. Despite dramatic increases in demand during June for fertilizers and herbicides, resulting in sales for the month being the highest on record, they were not enough to overcome slow sales for the previous months.

A contributing factor was the United States' phosphate fertilizer industry. Heavily dependent on export markets, it suffered a severe decline in sales. Surplus material moved into Western Canada at distress prices, causing domestic prices to erode.

Fertilizer: To the end of May, fertilizer sales lagged well behind those to the same date a year earlier. Inventories reached record high levels as many farmers put off buying until seeding, which was delayed in many areas until early June. By the end of the crop year, however, fertilizer sales were only 0.5 per cent behind last year and inventories were down to acceptable levels.

For the past few years, 46-0-0 (urea) and 82-0-0 (anhydrous ammonia) have often been in short supply. This situation improved as Simplot Chemicals completed a plant expansion. Sherritt Gordon and Esso Chemicals have new anhydrous ammonia and urea plants scheduled for completion next summer. This should relieve any further shortages of these two products.

Ten UGG fertilizer blending plants were built. New plants are now operating at Benito and Manitou in Manitoba; at Aberdeen, Birch Hills, Brock and Melfort in Saskatchewan; at Athabasca, Camrose and Castor in Alberta; and at Fort St. John in B.C. In addition, a bulk fertilizer plant was purchased and upgraded at Killarney, Man. Each plant is equipped to apply and blend Avadex BW with urea fertilizer. A number of smooth-wall hoppered steel bins were also installed.

Soil acidity is a major contributor to depressed yields of many crops in Alberta and some areas of British Columbia. About one-third of these problem soils are located in the Peace River region. Adding lime to these soils neutralizes the acidity, improves soil structure, and creates a suitable environment for nitrogen fixation in legumes. All of this contributes to higher yields.

To provide this needed lime, your company intends to distribute lime produced by Tri-Lime Resources at its new quarry 65 miles north of Prince George, British Columbia.

Herbicides: With the late spring, demand for herbicides was down from the previous year when sales reached record levels. While sales of most grassy weed control chemicals declined, Hoe-Grass and Stampede CM continued to be in strong demand. Sales of Torch, Brominal M, Weedone LV6, Weedone 100 and Banvel LH for broadleaf weed control continued strong. Sales increases were also registered for Roundup and Amitrol T for broad spectrum weed control in uncropped land.

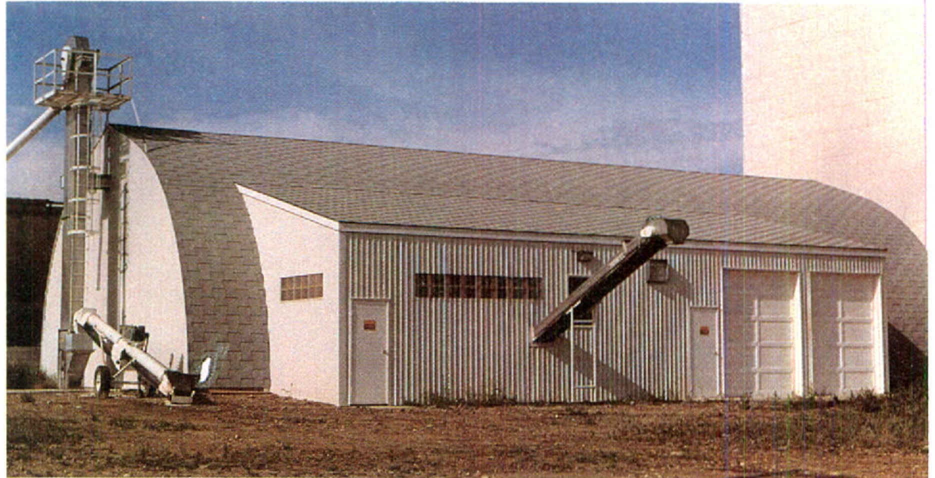
United Grain Growers has obtained distribution rights for Glean. The chemical provides excellent control of most major broadleaf weeds in wheat and barley. Glean is a new product from DuPont and it works at remarkably low rates of 6 to 12 grams per acre. Only limited amounts of Glean were available during the year.

Counter 5G, a newly registered insecticide for the control of flea beetles in mustard and canola will be sold by your company in 1983. It is soil insecticide applied in-furrow with the seed, and is absorbed by the seedlings through their roots. Results have shown Counter 5G gives long lasting control of flea beetles.

A major disappointment was the withdrawal of the registration for Magnum. Present indications are the product will be available for spring seeding. Magnum is a new formulation of trifluralin and it is expected to provide competition which will prove beneficial to farmers.

Twine: The abundant 1981 spring hay crop reduced the need for baling last fall which resulted in lower sales of twine. There was a significant switch from sisal to synthetic twine during the year as synthetic prices dropped and sisal prices increased.

Other farm supplies: Decis, a new insecticide from Hoechst marketed by UGG, controls flea beetles, grass-



New fertilizer bulk blending plants like this one at Castor, Alta. have been built at ten points during the past year. Each is equipped to apply and blend Avadex BW with Urea.

New in '82

Top left: Chemical injector on a Spra-Coupe lets you spray without having to mix chemical and water. Chemical is injected into the spray stream ahead of the nozzle. Left: Research shows Roundup at half rate knocks out quack grass. Top: Kerb is the first chemical to control foxtail barley in pasture and cropland.

hoppers and other insects. It has low toxicity and is highly effective. Decis was introduced at a higher price than other insecticides but its price is expected to decline in 1983.

The Gjesdal Five-in-One seed cleaner continues to win acceptance among Prairie farmers and for the first time, manufacturing kept up with demand. Modifications and improvements are continually being made and farmers are generally pleased with its operation.

Demand for tarpaulins, paint, shovels, moisture meters and other miscellaneous items remained steady.

Outlook: Full season prices for fertilizer and herbicides are expected to increase about 6 per cent, reflecting increased costs for energy, transportation and labour. Twine prices, depressed this past year, could increase by up to 20 per cent.

The farm supplies operation of United Grain Growers will likely experience difficult times in the short term because of economic conditions, but over the long term it will continue to make a substantial contribution in service to farmers and to your company.

The major recommendations of the special farm supplies committee appointed by the UGG board of directors two years ago was to emphasize market development, and to provide better service through bulk blending fertilizer plants, bulk fertilizer storage bins, anhydrous ammonia installations, and improved warehouses. Consequently, your company has installed additional 32 bulk blending plants, and 78 hoppered steel fertilizer bins, relocated two anhydrous ammonia plants, and added new sheds to handle other farm supplies. The total cost has been $5.8 million. In addition, new techniques and machinery to apply fertilizers and chemicals have been tested and evaluated.

The farm supplies operation of your company will continue with its program of market development.

Seed Operations

Inflationary costs, reduction in margins, and worldwide recession combined to make the 1981-82 fiscal year most difficult for the seed division.

Even though forage seed sales were up and seed grain and mustard volumes down just slightly from the year previous, a loss was recorded by the seed operations of United Grain Growers.

Creeping red fescue and mustard seed continued to be the largest volume items handled by this division. Prices of creeping red fescue were forced down by the bumper U.S. crop of Kentucky bluegrass, and this lowered the value of the large inventory held by your company.

Competitive high-quality fescues and ryegrasses being produced in the U.S. are penetrating the traditional markets for creeping red fescue. These new grasses could have a major impact on future use of creeping red fescue in grass-seed mixtures. The continued North American housing slump, down again by 10 per cent from last year, also had an impact on the whole grass seed market.

Although the value of yellow mustard sales increased, profits were down. Buyers of yellow mustard delayed purchases because of plant shutdowns and reduced demand. This forced your company to delay deliveries from farmers. Normally, all contracted mustard is delivered by the end of December, but this past year, deliveries lagged until June.

Another factor that depressed the mustard market was the bankruptcy of a major grain dealer. This collapse forced many tonnes of mustard seed on the market, which pushed down prices and adversely affected new crop sales.

Increased competition in seed grain from growers belonging to SeCan is making it difficult to expand seed grain sales. SeCan members have access to new varieties on an equal basis to larger seed companies and, consequently, UGG retail sales of cereals and oilseeds continued to decline. The increased competition, of course, is good for the industry.

New in '82

Counter 5G is applied to the seed to protect canola from flea beetles. The chemical is absorbed by the seedling through its roots.

Glean is a herbicide researchers claim is a discovery as novel as 2,4-D. Just one 500-gram jug will treat between 41 and 82 acres of wheat or barley.

Benito, Neepawa and Sinton wheat, Hercules durum, Fidler and Harmon oats, and Conquest, Bonanza, Bedford and Pequis barley were the highest volume cereal grain seed handled.

To meet the demand for a two-row, high-yielding malting barley for export, five new varieties are being tested.

Regent and Altex canola and McGregor flax were the main oilseeds handled. It is expected that hybrid canola will be available in about five years.

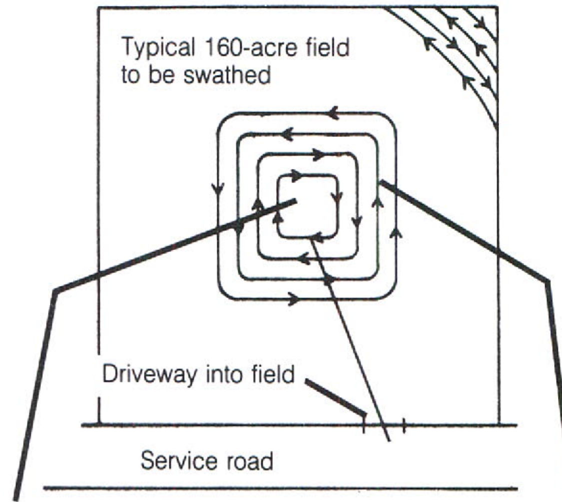
Demand for double recleaned oats continued to increase. These cleaned and recleaned oats are wanted by racehorse owners around the world.

A second packaging machine was installed at the Winnipeg plant, and packaged dried cereals production and sales have increased 40 per cent.

The new seed plant at Swan River, Manitoba has been completed and will improve your company's ability to better serve farmers in that area.

The old feed mill at Lethbridge is being converted into an outlet for the diversified and specialized crops grown in southern Alberta.

New in '82



— This is an area in the center of the field that could be, say, about 10% the size of field.

— Opening field with a small, conventional square in the center this way will eliminate a lot of wasted time doing larger corners later.

This area of field being started for the counterclockwise circular pattern. This pattern is being used in the Granum area of southern Alberta.

There are a number of advantages by starting to windrow at the centre of the field and working outward. These include: cut combining time by 5 to 10 per cent; reduce trucking time by 50 to 70 per cent; turn combine on corners easily; and stop grain loss over the straw walkers on corners.

Special Crops Operations

This past year, the UGG special crops operation again incurred a loss, largely due to lower handling, depressed prices and a tripling of interest costs.

The nature of the special crops business is a risky one due to widely fluctuating prices from relatively small changes in output and demand. There are no hedging facilities, as with rapeseed, flax, rye and open market feed grains, leaving your company in an exposed position any time it accumulates stocks or contracts for crops at fixed prices.

This past fiscal year started on an optimistic note with a good crop on farms and good sales. However, about December, 1981, sales slumped and stayed down as signs of large surpluses of most special crops became evident.

The interest in growing special crops, except sunflowers, continued the upward trend started several years ago. With this trend in mind, the special crops division directed its efforts towards two areas: standardizing contracts to provide more pricing options and cutting transportation costs.

Now farmers can contract to sell their entire crop at an averaged price for the crop year, or choose to forward sell part of their crop at a specified price with the balance sold basis an initial price plus final payment.

To cut costs, a central seed distribution system has been started and is to be completed in 1983. The streamlined system will cut the costs of moving seed stock to the farm gate.

In the case of sunflowers, after delivery, a farmer can elect to sell his crop at the street price or price his crop at any time up to July 31 of the following crop year. If he chooses to defer his pricing, he can store his sunflowers at no cost and take out an interest-free cash advance on the sunflowers he delivered.

In the 1981-82 fiscal year, the switch from contracting sunflowers to the purchase of harvested stocks, along with a smaller acreage, affected

UGG's handling. Sunflower acreage on the Prairies slid from over 300,000 acres in 1980 to under 200,000 acres in 1982. Your company's volume slumped from 20,000 to only 7,000 tonnes in the 1981-82 fiscal year. In the current year, United Grain Growers continues to both contract sunflowers and to buy on a non-contract basis.

The following provides a brief description of other crops handled:

- *Lentil* acreage on the Prairies was 100,000 acres in 1981, and 120,000 acres in 1982, with over 70,000 acres grown in Saskatchewan. UGG contracted acreage in all three Prairie provinces. The new Laird variety, with its larger seed and an upright plant, composed some 60 per cent of the crop in 1982. The initial price for the 1982 crop will be 15 cents per pound for No. 1 and 11 cents a pound for No. 2.

- *Canary seed* acreage doubled in 1982, and contracts were popular all over the Prairies. The initial price will be about 10 cents per pound and seed stocks for the 1983 crop are adequate. With the accompanying large increase in non-contract acreage, however, markets for canary seed are bearish.

- *Peas* were contracted again in Manitoba and Saskatchewan. For the first time, the Trapper variety was contracted. Initial prices run $3.50 per bushel, for the 1982 crop, down from $5.00 a bushel in 1981. Sales, however, could remain sluggish until importers start purchasing their annual supply of peas.

- *Buckwheat* contracts were offered for the first time in 1982, with prices for the first 5 bushels per acre, ranging from $5.50 to $8.00 per bushel. The remainder will be priced at current market values.

- *Pinto beans* were contracted on a limited basis in 1982. Supplies will be processed by the seed division of your company.

No contracts were taken by your company this year for confectionary sunflower seeds, safflowers or faba beans.

In spite of the present negative aspects surrounding the special crops business, this division is penetrating new markets and gaining experience in the contracting and production of many crops. The division is operating with minimum staff in order to contain costs, and an increase in volume remains as the key to profitability.

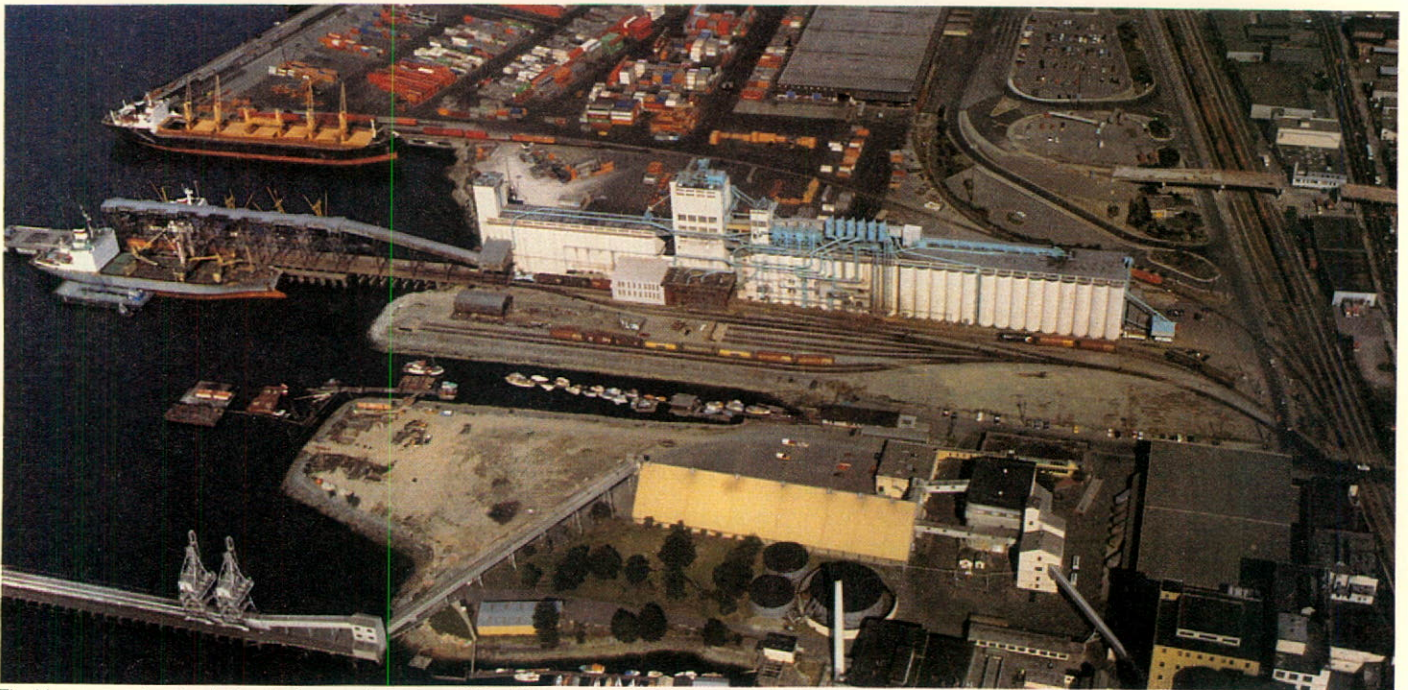
Terminal Operations

The grain handled by your company's terminals* this past year was a record 3.9 million tonnes, 20 per cent above the previous record of 3.3 million tonnes in 1971-72, and 30 per cent above the 1981-82 handling.

Handlings through your two Thunder Bay terminals this past year to-

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

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



The Vancouver terminal elevator has undergone a $16 million improvement program. Some changes are still to be made to the shipping gallery and more storage will be added to increase throughput.

talled 2,514,000 tonnes. Handlings through your Vancouver terminal were 1,382,000 tonnes.

These handlings were achieved in spite of a general work slowdown followed by a two week strike by grain handlers in Thunder Bay in the fall of 1981. At Vancouver, some disruption occurred when the CN bridge across the Fraser River was knocked out by fire for a period of four weeks this past spring. The record handlings set by the entire grain industry this past crop year indicates the much-improved delivery capability of the system.

Of significance is the number of grain cars assigned to the grain haul. Each railway had assigned a large number of hoppers to the grain haul that normally would have been in use for other commodities. Toward the end of the crop year, there were almost 30,000 grain cars in service.

The effect of a 40 per cent increase in car numbers and the impact of 60 per cent of the fleet being hoppers, resulted in a substantial increase in the ability of the railways to move grain.

Mention must also be made of the combined role played by the Grain Transportation Authority (GTA) and the Canadian Transport Commission Co-Ordinators (CTCC). The GTA allocates the available cars between the movement of Board and non-Board grains as well as among grain companies and grain dealers. In addition to co-ordinating the overall grain movement, the GTA developed and advanced the system of rapeseed car exchange at Vancouver which enhanced total throughput. The CTCC controls the movement and distribution of cars upon arrival at the ports and works closely with the railways and the trade to keep cars constantly in front of terminal dumpers.

Fortunately, there was a good availability of vessels both on the west coast and Thunder Bay during most of the year. Terminals could not have achieved such a high level of throughput without an adequate supply of vessels to occupy berths and continuously move grain out. Most terminals congest within a day or two if outward shipments are not received. Timeliness of vessel arrival at berths is now the critical element toward achieving a high throughput.

Financial results from terminal operations were satisfactory this past fiscal year. A combined record net income of $8.2 million was achieved which reflects the effect of a record throughput. It should be noted your Vancouver terminal operation has had a major improvement in plant capability following five years of renovation.

In spite of its improved performance, terminal handlings were substantially behind the volume of grain originated by your company's country elevators. Some of the reasons for this situation are known. Limited storage and slow loading at Vancouver are both constraints that lead to the Vancouver terminal plugging quickly. At Thunder Bay, with the small storage capacity at elevator M there are similar problems. At elevator A, which has a large storage capacity, the throughput problem largely appears to be one of inadequate car spotting, resulting in unload performance short of what the terminal can do.

One objective of United Grain Growers is to have terminals capable of handling the grain originated by its country elevators. Therefore, ongoing upgrading of terminals has been undertaken to improve throughput.

The renovation program at Vancouver, which included semi-automation and centralized control, involved capital expenditures upward of $16 million. There remain improvements to the shipping gallery and some additional storage capacity in order to reach the desired throughput capability. At Thunder Bay, terminal M is entering the final phase of upgrading to provide centralized control followed by computer control. In time, similar upgrading of Terminal A will be needed in order to increase throughput and productivity.

Expectations for the current crop year are for continued high handlings. The ability of railways to deliver is good since additional cars are assigned to the 1982-83 grain haul. Both railways have started a policy of maximizing the use of hopper cars on the West Coast haul and, as a result, increased tonnage is being moved westward. Vancouver terminals can handle substantially more grain than has been allocated to that port in recent years, and throughput of 11 million tonnes or higher can be expected to be routine. It should be noted, though, that this can only happen if ships are in port, railways deliver the grain, and farmers grow it.

With Prince Rupert capable of handling in the order of 3.5 million tonnes, the total West Coast movement could approach projected target figures for 1985 of 15 million tonnes. With excess railway capacity, the emphasis has now shifted to better co-ordination of vessel arrivals in order to keep grain moving freely from the end of the pipeline.

Grain Marketing Operations

Grain marketing operations was split from your company's terminal elevator operations in the 1982 fiscal year since the two require considerably different management approaches. In addition, the marketing thrust was centred mainly on marketing the grain purchased by country elevator operations and selling grain by-products rather than maximizing volume of sales regardless of the origin of the grain.

While the marketing operations of your company sustained a loss this past year, much of it due to unavoidable commitments from the previous year, the loss was well down from the substantial loss of the year earlier. Improved inventory control, insistence on better margins at the sacrifice of sales volume, and a somewhat more conservative trading approach improved operational results.

The 1981-82 crop year was marked by a steady decline in values of virtually all grains and oilseeds. This decline

is due to a combination of things: large 1981 world crops, reduced demand due to a world-wide recession, credit restrictions of many importing countries, and a general weakening of most foreign currencies against the U.S. and Canadian dollar.

Volumes of Prairie feed grains moving into Eastern Canada were well below levels of recent years. Large 1981 crops of corn harvested in Eastern Canada and the United States at low prices effectively satisfied a reduced demand in the Eastern Canadian domestic markets. Demand was down due to mediocre livestock prices throughout much of this past year.

The decline in feed grain values below the initial prices of The Canadian Wheat Board resulted in sharply reduced farmer deliveries of feed grains to the open market. In addition, The Canadian Wheat Board temporarily withdrew from supplying feed grains to the domestic market when its corn-formula values fell below their initial prices. The Canadian Wheat Board resumed selling to the domestic market when the federal government undertook to provide up-to-$8 million subsidy to The Canadian Wheat Board to cover the difference between the corn-formula values and export values on grain sold to the domestic market. This program expires at the close of navigation at Thunder Bay this year.

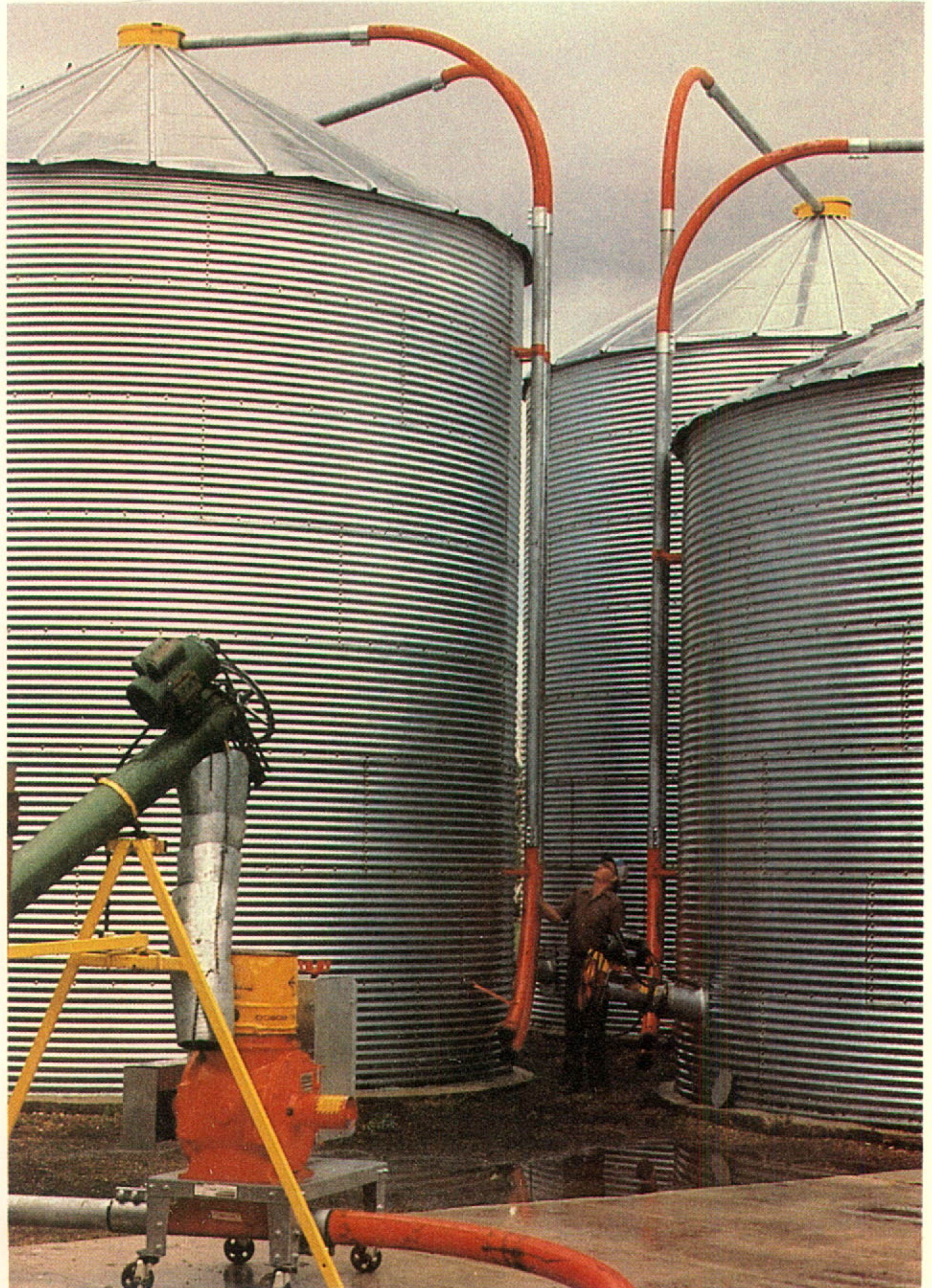
In spite of poor crush margins, rapeseed exports were maintained at last year's levels. Japan continues to be the major market for rapeseed. The reduced industrial demand for linseed oil resulted in lower flax exports. Rye was the one commodity that moved to export markets in good volumes compared to recent years.

The outlook for improvement in world grain markets continues to be bleak. Factors which contributed to last year's price declines continue: record 1982 North American crops and poor world-wide economic conditions. On the demand side, another poor Soviet crop is forecast and there will be a good export movement of grain to Russia and other eastern bloc countries. The enormous carryover of grain in the U.S. and record crops, however, translate into almost certain low grain prices for 1983.

The domestic feed grain market is expected to be similar to last year, with prices under the shadow of enormous U.S. corn supplies, providing tough competition for Western grains.

Under these conditions, the grain marketing operations will continue to work at developing new markets as well as servicing current ones. A profit is expected in the current fiscal year.

New in '82



Grain handling setups using pneumatics to move grain into the bins are being installed by Prairie farmers. This new system does not need an expensive vertical leg to move the grain — only pipes fastened to the bin wall.

Feed Operations

Although processed feed sales were down slightly, the $1 million profit of United Feeds this past year was up 25 per cent over the previous year. This was better than anticipated after the first half of the year when poultry and livestock prices remained depressed and protein and grain prices strong.

By the end of the 1982 fiscal year, however, conditions for the livestock producer improved. Hog prices rose dramatically and beef prices improved, while the cost of feedstuffs fell. This resulted in sales reaching $55.3 million and a profit of $1 million compared to $0.8 million the year previous.

United Feeds is the largest supplier of Unifeed poultry and livestock feed on the Prairies. During the year it processed 233,000 tonnes of the Unifeed brand in 11 mills located in Alberta, and three in Saskatchewan. In September of this fiscal year, your company expanded its feed operations into Manitoba with the purchase of Dufferin Feed Services Ltd. at Carman.

Over 163,000 tonnes of feed grain was purchased and processed this past year. About 80 per cent was bought from farmers, 18 per cent from United Grain Grower elevators and the balance from other grain companies and dealers.

Grain and protein prices declined steadily over the last half of the crop year. Wheat and oats were down $15, barley $18 and corn $40 a tonne. Soybean meal declined $50, rapeseed meal $16 and meat meal $40 a tonne. Meanwhile hog prices improved about $16 and cattle prices by $13 a hundredweight and broilers by $.04 a pound. Broiler quotas also increased from 110 to 130 per cent during April but dropped to normal levels by year end.

During the year a fire destroyed the Olds, Alta. mill leaving only the warehouse, office and the ground level of the mill intact. The mill was rebuilt of metal and back in production in June. During the shut down, customers were

United Feeds moved into Manitoba with the purchase of the Dufferin Feed Services Ltd. 17,000 tonne mill at Carman.

supplied with feed trucked from the Edmonton, Lethbridge, Midnapore and Camrose mills.

The Innisfail Pet Food Plant increased production and sales by 20 per cent over the previous year. Co-Packing represents 85 per cent of the production and Western Pet Food brand 15 per cent.

During the year, the new Lethbridge, Alta. mill was completed. Load out bins were added and production capacity increased by 50 per cent at Camrose, Alta. through installation of a pulverator.

A new mill, warehouse, receiving scale and steam rolling mill are under construction at Wetaskiwin, Alta. and are planned to be in production by January, 1983.

Public Press Operations

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

The past fiscal year was an excellent one for the publishing operation of your company. It started off well and though there was concern initially about the extent of advertising in spring issues, the whole year turned out to be one of growth. *Country Guide* increased advertising linage by 22.5 per cent over the previous year and, because of advertising rate increases and more use of color, advertising revenues were increased by 23 per cent for all the magazines in total.

All enterprise editions, (*Hog Guide, Dairy Guide, Corn-Soy Guide* and *Crops Guide*) again made a profit and performed well in their service to specialized readers.

This division also publishes *Cattlemen* which did not come out of the doldrums as hoped but still made a profit. The editorial package this past year provided readers with better and more original content, and with full-time editorial and advertising representation in Eastern Canada, more growth for *Cattlemen* can be expected this year.

This past fiscal year was an extremely difficult one for printing operations. Final results for the year showed a substantial loss.

The main reasons for the loss were the drop in expected sales due to customers affected by the recession, curtailing buying of print, and low margins. Some previous buyers went out of business, and others were affected by the extreme increases in postal rates. Most customers have sharply reduced their advertising dollars in an effort to cut costs.

Sales were also adversely affected by an extremely competitive market, caused by the downturn in the economy and excess capacity in the printing business, given the reduced demand for printing.

Efforts are being made in the current year to increase sales and further reduce costs so some improvement in revenue should result. However, a complete turnaround cannot be expected until the economy picks up and an improvement in margins can be obtained.

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, normally accounts for about one-fifth of the capacity of the Canadian canola crushing industry.

UOPL suffered severe financial losses this past fiscal year. Crush volume was reduced from the previous year due to negative crushing margins, but even the lower volume did not prevent a loss for the year of $7 million. As half owner, United Grain Growers' share of this loss is $3.5 million.

Depressed soybean prices and a short canola crop were mainly responsible for the negative crushing margins. The 1981 canola crop of 1.8 million tonnes was simply not large enough to meet both export and crusher demand, even with the 1980 carryover. This shortage kept the prices of the seed at high levels relative to the value of other world oilseeds and their oils and meals.

Two other things contributing to low oilseed prices were interest rates and a strong U.S. dollar relative to foreign currencies. This made U.S. commodities and products expensive and consequently curbed demand. To improve demand, prices had to work lower. Since the U.S. soybean market is the key price-setting factor for all oilseeds and their products, it had a bearish overriding effect on Canadian oilseed prices.

An enormous U.S. soybean and corn harvest in 1981 plus a large carryover from the year before, kept oilseed supplies plentiful and prices low for both oil and meal. The lower prices for vegetable oils around the world stimulated demand. The result: a reduction in the surplus of soybean oil, but still an excessive amount relative to demand. The world recession and high petroleum prices were also factors that induced world oil and meal

customers to buy, only when prices were low, especially in view of the good supplies of vegetable oil, protein meals, oilseeds and feed grains.

The result of all these factors brought about the low and negative crush margins throughout the year. The crushing margins were the worst in the history of the Canadian canola industry and for a good part of the year UOPL could not obtain enough revenue from oil and meal sales after paying the freight to cover the cost of the seed, much less processing costs.

The freight rate disparity — it costs about six times as much to ship oil and meal from one tonne of seed as it does to ship one tonne of seed under the crow rate — hurt the Prairie crushing industry. It is hoped Railway Act amendments this winter concerning grain freight rates will place canola oil and meal freight rates at parity to canola seed.

Efforts to contain expenses also helped to reduce UOPL losses. The increases in expenses over the previous year were well below the rate of inflation before considering additional interest expense incurred because of the declining cash reserves. Satisfactory company earnings in each of the three previous years enabled the company to sustain itself throughout the 1981-82 year. It was necessary, however, to borrow additional long term funds near the end of the fiscal year.

The long term contract entered into with Algeria before the 1981-82 crop year precluded the shutting down of the UOPL operation during the year. Even though this contract was more favourable than other opportunities throughout the year, the price on each month's shipment was set against the very low Chicago soybean oil futures market. Also, the seed to supply the contract was purchased from farmers at the going market price throughout the year.

The outlook for 1982-83 is not encouraging at this time. The 1982 canola production in Canada was increased by only 11 per cent, but with the low carryover from the previous year and with much of the crop grading No. 3 or Sample, seed supplies will remain tight over the next year. This will result in reduced volume available for domestic crushing. Prices for canola seed are expected to remain high relative to U.S. soybeans and other world oilseeds.

It is doubtful if seed prices will go much above the $300 per tonne level to the farmer for extended periods of time because of the influence of the soybean prices, but seed prices — while low from a farmer's standpoint — will remain high relative to the value of oil and meal. Other factors expected that will negatively influence crushing margins are the forecasted 1982 record crop of corn and soybeans in the U.S.A.

No dramatic turnaround in the crushing situation within the next 12 months is expected. The shortage of seed in Canada and plentiful supplies of soybeans in the USA will blunt the full impact of any major turnaround of crushing margins in Canada.

It was expected that a plant shutdown in November for an extended period of time in the 1982-83 fiscal year was needed to avert losses. Fortunately, the Alberta government introduced an assistance program. The assistance is a $40 per tonne subsidy for canola crushed on 90 per cent of each crusher's 1981-82 volume. It is hoped this will allow UOPL to sustain a near-break-even position this fiscal year and crush, perhaps, 160,000 tonnes of seed.

Lack of adequate supplies of canola seed appears to be the only limiting factor to the crushing plant remaining open this fiscal 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

New in '82

Soil conditioners are becoming popular for incorporating herbicides. It's a combination of a field cultivator in front, followed by a ground driven spiral reel and spike tooth harrow at the rear.

existing government terminal at that port.

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 the transfer of the existing terminal elevator to Prince Rupert Grain Ltd. On July 12, 1982, the members of the Consortium agreed to proceed with the construction of a new terminal on Ridley Island and the Province of Alberta agreed to finance 80 per cent of the project through issue of first series bonds and debentures. The estimated cost of the new terminal including site grading, railyard, elevator complex and marine structure, is approximately $280 million and completion is expected in early 1985.

During the past fiscal year to July 31, the existing Prince Rupert terminal operated by Prince Rupert Grain Ltd. earned a profit of $1.1 million with a throughput of 1.2 million tonnes of grain. UGG's share of this profit is $169,000.

Other Items

Risk and Insurance Operations

UGG Insurance Services, established in 1918, continued to develop its role as agent and broker in general and life insurance. The service is at two levels: corporate risk management and insurance 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, five different insurance plans are now available. These plans include . . .

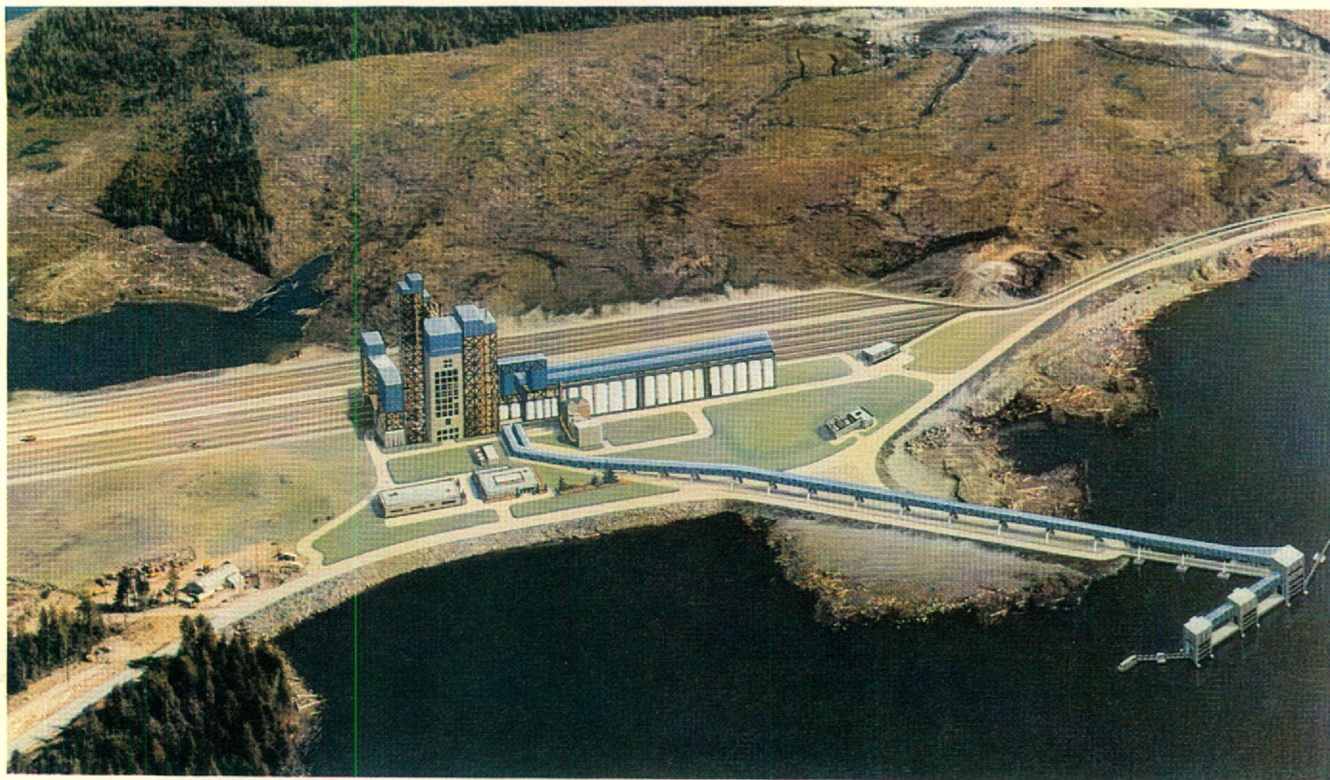
- Farmer Group Life (Cash Value Insurance Plan)
- Farmer Group Life (Term Insurance Plan)
- Farmer Group Accident Plan
- Farmer Group Registered Retirement Savings Plan (Tax Saver)
- Farmer Group Income Replacement Plan.

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 are aware 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 to age 71 by transferring the funds into an annuity. 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



The proposed new Prince Rupert Terminal will cost about $280 million and will be in production by 1985.

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.

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

Interest on this 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.

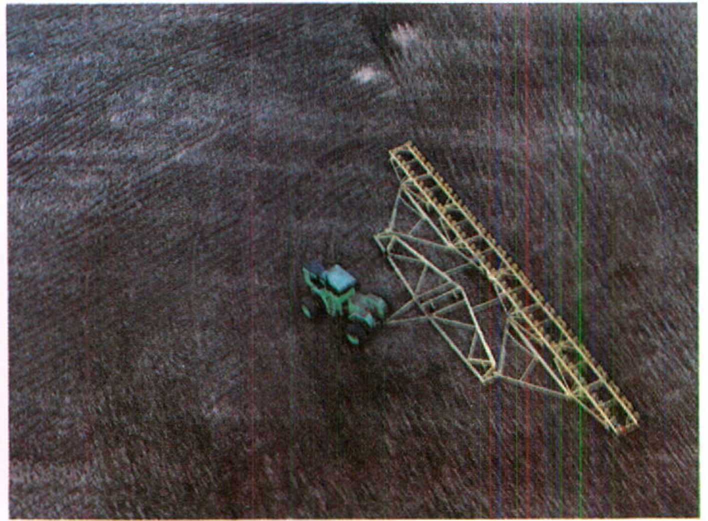
There are no yearly administration charges under either plan.

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 is popular among farmers.

UGG Insurance Services also provides 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 UGG Tax Service provided by United Grain Growers.

New in '82



Farm machinery continues to get bigger and more complex. Top left: A 60-foot tractor mounted swather; top: This 100-foot wide cultivator is pulled by a big Steiger tractor; and left: a minimum tillage system works stubble, prepares a seedbed, applies and incorporates herbicides and plants up to 12 rows all in one operation.

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 20 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 was introduced the previous fiscal year. If circulation continues to hold or gains, publication of *The Grain Grower* will continue. Consideration, however, is being given to merging the Grain Grower with Grainews or selling the service to 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 38,000, evidence that *Grainews* is well accepted and is supplying a unique farmers' forum and technical service to Prairie farmers. Measures have been taken to increase the advertising to allow for more color in editorial features.

Research and Corporate Development Services

The major projects in which research and corporate development services were involved during the past fiscal year were the analysis of the physical and financial viability of the proposed Prince Rupert Terminal elevator, and the design and initial implementation within the company of a corporate planning system.

Detailed analysis and information were developed by the research and corporate development services in order to provide background information for the board of directors' final decision regarding participation, and for negotiation of the financing package for the Prince Rupert project.

A major problem in the assessment of the financial viability of the extremely capital intensive Prince Rupert project was the current level of inflation and the uncertainty with regard to future inflation levels, particularly in the earlier years of the project's life span.

The corporate planning system, which has now been introduced within United Grain Growers, involves the annual development of company-wide five to ten year objectives and strategies in relation to: the outlook regarding the external social and business environment in which the company operates; the resources, strengths, weaknesses and opportunities of the company; and the corporate objective of your company.

Within the overall framework of the corporate plan, each division of the company develops its own operational objectives and strategies. These operational plans form the basis for the development of annual budgets that take the form of one-year projections regarding the use of your company's physical, financial and human resources.

In the coming years, it will be vitally important to your company's progress that development and change take place in relation to the changing service and supply requirements of Western Canadian farmers that occur as production patterns change with the changing markets and production cost levels.

Field Services

UGG Field Services acts as a liaison between shareholders, local board members and management.

Each Field Services representative works closely with the board of directors, members of management, shareholders, local board members, customers, the farm community and the public in advocating the services offered by United Grain Growers. The department provides farmers with technical information about herbicides, pesticides, new products and marketing options for all Board and non-Board grain.

The 13 Field Service representatives are charged with having a sound knowledge of all aspects of company operations and policy. They assist farmers who want help in establishing sound business practices and work with elevator managers. Other areas in which Field Services representatives become involved include working with 4-H and other youth groups, helping with farm organization registrations, and participating in annual weed and seed fairs, and community parades.

Farm Organizations Support

During the past year, United Grain Growers continued its long established policy of financial support of 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.

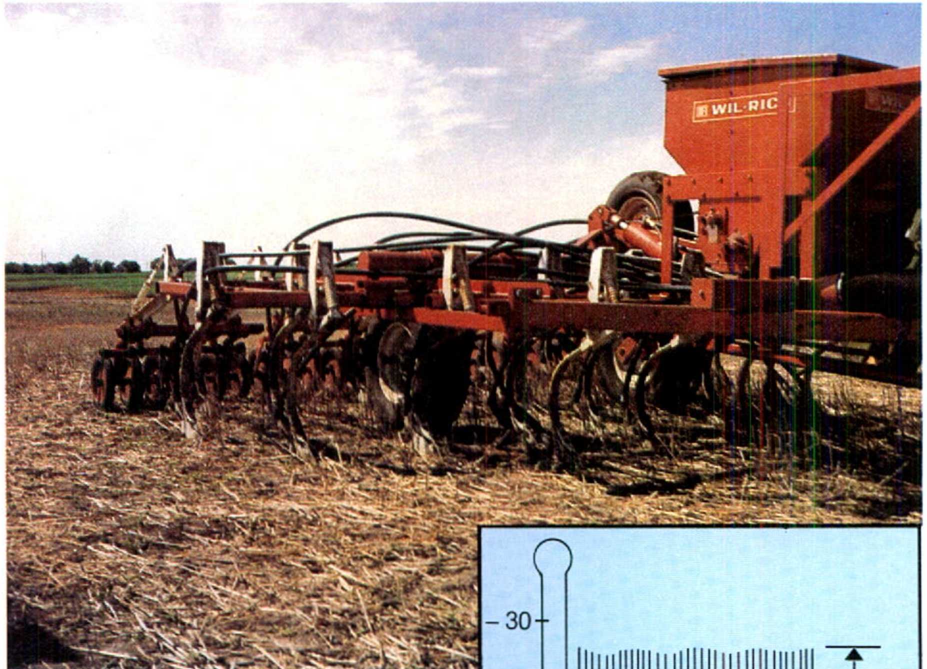
Winter Wheat

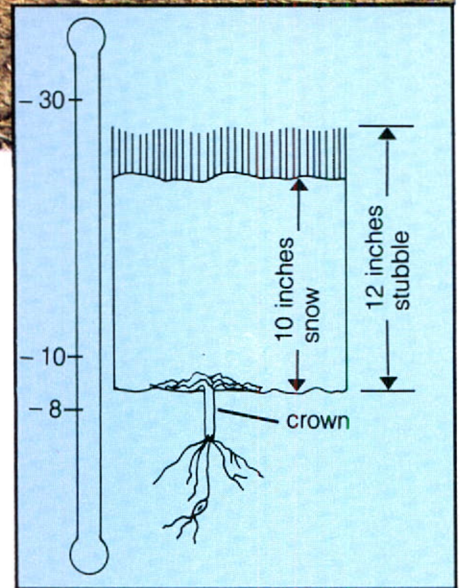
United Grain Growers donated $25,000 as part of a three-year $75,000 grant to the University of Manitoba for research into management methods for growing winter wheat in the northern areas of the Prairies.

Technology in the growing of this crop in northern areas has advanced such that it is a dependable crop to grow. The key to success is seeding the winter wheat into stubble, thus allowing trapped snow to protect the growing point from extended temperatures below minus 18 degrees C.

Hard winter wheat is sold to the same markets as No. 3 CWRS wheat and is generally priced at that level. Winter wheat, however, yields an average of 20 per cent more than red spring wheat and is less costly to produce since wild oat herbicides may not be required. The crop is seeded in late August and early September into canola or barley stubble and combined in August. More research on seeding, fertilizer and herbicide requirements is needed, and this is the reason for your company's grant.

In co-operation with provincial governments and universities, United Grain Growers will carry out an extensive information program on the growing of winter wheat prior to spring seeding in 1983.





An airseeder with narrow openers does the best job of seeding winter wheat into stubble. The hoe works its way under the trash to slice an opening into the moist seedbed. Right: A schematic diagram showing how snow protects the crown of winter wheat. When outside temperature is −30°C the temperature at the crown is about −8°C providing it is protected by four or more inches of snow.

Farm Safety

Following the detailed account of a farmer's death through a machinery accident in the December, 1981, issue of *Grainews,* your company was literally swamped with requests from farm wives and children for a heart-shaped safety decal expressing the concern of a farmer's family for his safety. The board of directors of United Grain Growers authorized the purchase (11¢ each) and free distribution of 63,000 decals to farm families who requested them.

It is hoped the all-weather decals, when placed on critical danger spots, will remind farmers to priorize safety before speed. It is obvious from the requests that farm women and children are concerned about safety and the *Grainews* article is reprinted in Appendix E so readers of this annual report, who did not see it, can take advantage of the safety program. Address enquiries to *Safety Decals, UGG, Box 6600, Winnipeg.* Please enclose a stamped self-addressed envelope and limit requests to 12 decals per family.

It is well known that farming is one of the most dangerous occupations in Canada. United Grain Growers intends to follow up its safety decal program with practical demonstrations and information programs to Prairie farmers.

Farm Policy

International Wheat Agreement

The International Wheat Council (IWC) has proposed extending the current International Wheat Agreement for three more years upon its expiration a year from now.

The proposal, presented at the IWC meeting in London this summer was quietly supported by most exporters while being met with dismay by most

importers. The current agreement provides for information gathering and exchange, but gives the IWC no role in managing world stocks or trade.

Many developing countries had hoped a new agreement would establish an international mechanism for accumulating and releasing world wheat stocks, in order, they argue, to enhance world food security and stabilize prices. Sometimes Canada, and always the U.S., have opposed such a proposal for many years because of disagreement with importing countries over price levels and reluctance to relinquish management of their own stocks to an international body. While acceptance of the IWC proposed extension is probable, no final decision will be made until the November meeting.

Another positive development of the meeting was the announcement of plans for a comprehensive IWC review of restrictive trade policies. The EEC variable levy system was cited as a prime example of a type system which distorts trade and would be a subject of the study.

Rail Transportation

Transportation policy continues to be an issue of major concern to Western farmers and United Grain Growers. The directors of United Grain Growers are committed to the evolution of the most effective and efficient transportation system while, at the same time, allowing for the comparative Prairie advantage in the livestock and secondary processing industries to be realized.

The basic principles relative to rail freight, which United Grain Growers endorses, have not changed and are as follows:

- The railways receive compensatory rates for the movement of grain;
- The Government of Canada pick up the current shortfall (1981-82) in perpetuity;
- The federal government, railways and farmers share in any future inflationary increases;
- Monies paid by the government to achieve the compensatory level be distributed in such a manner that the impact of such monies on livestock producers, special crops, and secondary processing be neutral.

It is the belief of the board of directors of United Grain Growers that these principles are inseparable and must be all part of an ultimate solution. On February 8, 1982, the Honourable Jean-Luc Pepin announced the principles of the federal government's policy position relating to Western rail transportation. Among the principles was the statement that the freight rate for statutory grains would be raised above the levels established in the 1925 amendment to the Railway Act.

The seven principles announced set the stage for a formal process of discussion and negotiation between railways, shippers, processors, livestock producers and grain farmers. This procedure, which came to be known as the Gilson process, had economist Dr. J. C. Gilson acting as chariman and federal representative. The project was a massive one and the solutions are very complex. After some 25 days of formal meetings over a 128-day period, Dr. Gilson, on June 15, 1982, filed his report on the consultations along with his recommendations. (See Appendix F). Since then, several task forces and committees have been carrying on further investigations, gathering additional information and working towards carrying out the intent of the recommendations.

There is both need and urgency for an all-encompassing approach to deal with Western grain transportation policy and the broader rail capacity problem. The capacity issue is critical not only for Western farmers but, indeed, for all of Western Canada and its future development. It is important that any solutions recognize the strengths and growth opportunities for agriculture, related industries and the economy of Western Canada.

It is in light of these observations that the board of directors of your company believes organizations that negotiated with Dr. Gilson did a good job. The recommendations allow for:

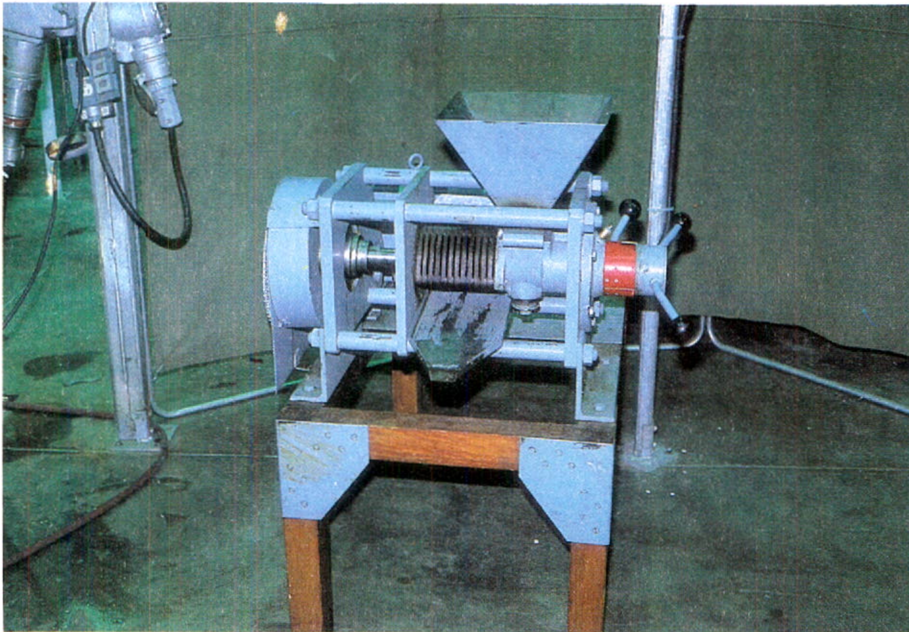
- A comprehensive solution to the rail capacity problem;
- A statutory commitment to future rail rate increases which puts a definite limit on increases farmers will have to absorb;
- A statutory commitment by the Government of Canada to pay on an annual basis an amount equivalent to the 1981-82 shortfall in perpetuity;
- The creation of a central agency to administer the performance, investments and service undertaken by the railways.

In essence, if the recommendations are implemented, farmers would have the statutory protection of a new Crow rate with considerably more power and clout than under the old Crow legislation. The contribution by the federal government would be well defined and no longer would farmers have to depend on *ad hoc* injections of federal monies to get the job done. In addition, the recommendations allow for the guarantee of both investment and performance by the railways and a policing mechanism to ensure that the railways, indeed, do invest and perform.

Resource neutrality was a key objective of the participants in the negotiating process. As a result, Dr. Gilson recommended a gradual transition over the next decade in the distribution of government monies in an attempt to eventually reflect neutrality for the livestock, special crops and secondary processing sectors. The system recommended begins in 1982-83 with all government monies related to the shortfall being paid directly to the railways and a gradual transition towards payment of a portion directly to farmers so that by 1990 a maximum of 81 per cent of the government monies would be received directly by farmers.

Included is the recommendations of a major review of the legislation to be undertaken in 1985-86 and every five

New in '82



On-farm crushing of oilseed for use in diesel fuel may soon be practical. Researchers are testing the small press to extract the oil, leaving the meal for livestock feed.

years thereafter. The main purpose of the review is to determine the performance of the distribution method of government monies.

In summary, the board of directors of United Grain Growers believes the Gilson recommendations provide the essential elements for a package of solutions that are fair, effective, realistic and comprehensive. The board agrees with the premise that to continue with a system of band aid crisis-oriented solutions for the future is unacceptable since it inhibits technology and the evolution of a grain handling, shipping and marketing system that best fits the needs of Prairie farmers.

Planning for the Future

Compared to Prairie grain farmers and their operations, the grain handling and shipping system in Western Canada is still far from modern. The morass of grades, quotas, and outside intervention in the grain business clutter up the movement and prevent farmers from choosing a system that best meets their needs. They make it difficult to contain costs, and competition and entrepreneurship to a larger degree are stifled. The system simply won't allow elevators to express themselves as well as technology would let them.

A way must be found to allow farmers to:

- trade off extra trucking costs against rail savings;
- deliver to elevators that are throughput-rather than storage-oriented;
- choose an elevator system which takes the greatest advantage of new technology, and which is freer than it is now in making unfettered decisions that reveal the benefits of incentives, and innovation and technology.

These options will allow farmers to choose their own handling system. In so choosing this system, farmers will select the least-cost, most efficient way to move grain from their farms to the end-user.

Conclusion

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

After reviewing a year in which the second highest dollar earnings in your company's 76-year history were recorded, the directors wish to acknowledge the source of United Grain Growers' strength. These are the customers who use its services and all the employees who supply these services.

The directors again wish to pay tribute to the work of members and directors of UGG locals. They kept a watchful eye over local business conditions and advised the directors and management of their first-hand impressions. The directors were guided by the excellent response to requests for advice on policy matters. In particular, they appreciate the reactions to the Gilson Report questionnaire dealing with method of payment of the 'Crow Benefit.'

Net farm income of Prairie grain farmers this current year is the lowest in the past 10 years and is comparable to that of the Great Depression for many. So serious is the situation that the economic viability of numerous farmers now hangs in the balance.

Much of today's farm enterprise was built on the twin underpinnings of farm credit and the rapidly rising value of farmland. Unrealized capital gains made many farmers "paper wealthy." Their land equity increased, thus giving them more borrowing power. The process was the major factor in the growth of farm efficiency through capital outlays for larger tractors and greater economies of scale.

But it also created a sense of false security for a minority of farmers. They borrowed on the premise that grain prices would remain profitable, however small. But even if prices were near or below break-even prices they found themselves on a financial merry-go-round. They had to keep on bor-

rowing to create cash flow for current expenses and to service debts.

During the past decade, capital gains more than tripled the residual or actual return on investment for farmers. However, while unrealized capital gains increased the paper wealth of landowners, it didn't add one red cent to their cash flow.

What it has done is give them borrowing power from their land appreciation to keep up with burgeoning debts. Therefore, farm debt compared to the increase in equity (debt/equity ratio) held by Prairie farmers has remained fairly constant. However, the amount of debt farmers have built up in relation to their net cash income from crops is another matter altogether. It has become distorted and reflects lower prices for crops at the same time inputs — fuel, machinery, fertilizer, chemicals and interest rates — have skyrocketed.

It means it has become increasingly difficult to finance as much with the returns from crops, so many farmers have had to borrow against the equity of their land. The mounting debt load on some farmers is so heavy it completely overshadows their farm income and, in some cases, takes almost every penny to pay their loans.

Some farmers are leveraged to the point that income is too low to meet cash flow needs, including debt service and consumption. The only way most farmers can survive the current financial crunch is to have enough land equity on which to borrow. Over the long run, though, the only way economic vitality can be ensured is to have higher farm income through higher prices and lower costs.

Inflation is certainly the number one problem facing farmers today, particularly in the form of higher interest rates, and the directors of your company commissioned a special study so farmers can understand the unique cause-effect relationship between federal government deficits, inflation and interest rates (Appendix G). Understanding the present impact of interest rates can help farmers through similar situations in the future.

An important lesson is the effect of inflation on interest rates, generally the real interest rate needed to attract and loan money averages two to four per cent. But when inflation erodes the value of the dollar, the lender expects the dollars repaid to him a year or five years from now will be worth less. To make up for this loss, the lender charges an "inflation premium" which is added to the normal interest rate. Thus, if a lender expects the inflation rate over a period to be 12 per cent, he will add a 12 per cent premium to the two to four per cent normal rate of interest. Uncertainty about the direction of future inflation — dependent wholly on federal government deficits — only adds to the premiums.

In this, the second year of your company's entry into the last quarter of its first century, the directors realize much of this report has not been pleasant reading. The current year will see more farmers unable to sustain themselves and be forced to give up farming. However, with understanding and firm action, these times will pass and growth will again occur.

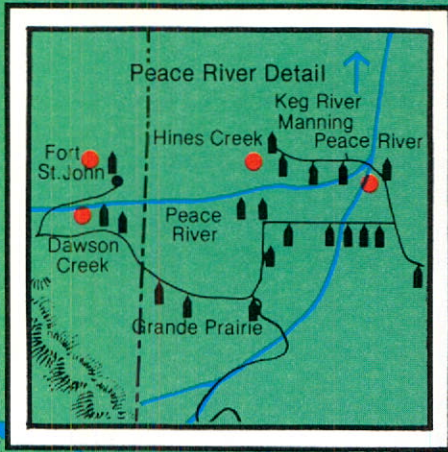
The painful tax that inflation has posed on farmers and United Grain Growers will not be easy to cure. It will take a period of bitter medicine before the ills are cured.

The bright side is that farmers and your company are likely to be far better off once a stable economy is achieved. For instance, given Dr. Gilson's estimates of 1981-82 volumes and the government's commitment to pick up the shortfall, and if there is no inflation, farmers will pay no more for shipping grain to export than they pay now. With economic stability and a freeing up of some of the aspects that hinder movement of grain, United Grain Growers can accelerate its country elevator modernization plan. This would provide the vast majority of customers with access to a fully modern plant before the end of the decade.

Lorne Hehn,
President

New in '82

Fertilizer applicators are now available to band fertilizers just to the side and below the seed during seeding with a disc press drill.



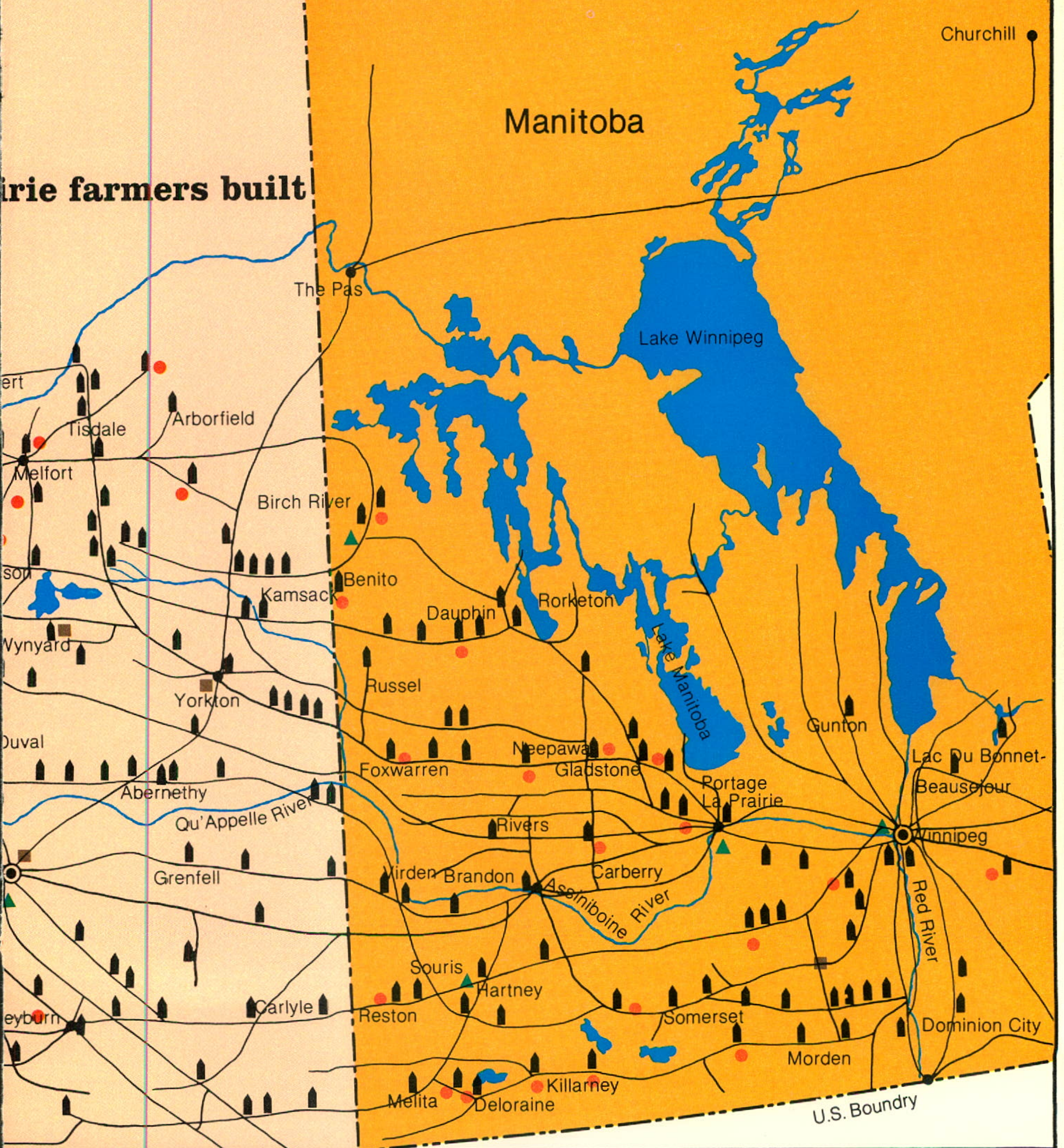
The Company that 90,000 prai

Alberta

Saskatchewan

Athabaska River
Barrhead
Morinville
Edmonton
Willingdon
Vegreville
North Saskatchewan River
Lloydminste
Wetaskiwin
Camrose
Viking
Battleford
Prince Alb
Rosthern
Saskatoon
Macklin
Biggar
Alliance
Coronation
Kerrobert
Red Deer
Rosetown
Brock
Hanna
Carstairs
Drumheller
Davidson
Wayne
Red Deer River
Eston
Calgary
South Saskatchewan River
Bow River
Hussar
Regina
Moose Jaw
High River
Fox Valley
Swift Current
Gravelbourg
Maple Creek
Ft. Macleod
Medicine Hat
Bow Island
Assiniboia
Lethbridge
Foremost
Willow Bunch
Cardston
Warner

ELEVATOR
FEED MILL
ANHYDROUS AMMONIA AND BULK FERTILIZER PLANT
SEED PLANT
CRUSHING PLANT



Financial Statements

Earnings

For the Year Ended July 31, 1982

United Grain Growers Limited

		1981 Comparison
Sales and revenue from services (note 1)	$1,245,694,000	$1,374,576,000
Operating revenues	$ 117,403,000	$ 101,734,000
Gain on property disposals	453,000	1,769,000
	$ 117,856,000	$ 103,503,000
Operating, general and administrative expenses (note 2)	100,951,000	93,495,000
Earnings before patronage dividend and income taxes	$ 16,905,000	$ 10,008,000
Provision for patronage dividend	3,750,000	1,850,000
	$ 13,155,000	$ 8,158,000
Provision for income taxes including $3,989,000 (1981 - $2,100,000) deferred	5,112,000	2,100,000
Earnings before other income (loss)	$ 8,043,000	$ 6,058,000
Share of net earnings (loss) of United Oilseed Products Ltd.	(3,508,000)	1,545,000
Net earnings	$ 4,535,000	$ 7,603,000

Retained Earnings

For the Year Ended July 31, 1982

		1981 Comparison
Balance at beginning of year	$ 49,822,000	$ 43,267,000
Net earnings	4,535,000	7,603,000
	$ 54,357,000	$ 50,870,000
Deduct:		
Dividend of 7% declared on Class A Shares	$ 1,182,000	$ 1,016,000
Dividend of $1.38 declared on Class B Shares less $89,000 provided in prior years	29,000	32,000
	$ 1,211,000	$ 1,048,000
Balance at end of year	$ 53,146,000	$ 49,822,000

Changes in Working Capital

For the Year Ended July 31, 1982

United Grain Growers Limited

		1981 Comparison
Working Capital Derived From		
Operations		
Net earnings	$ 4,535,000	$ 7,603,000
Items affecting earnings not requiring use of working capital	18,056,000	7,391,000
	$ 22,591,000	$ 14,994,000
Proceeds from property disposals	1,030,000	2,568,000
Dividend — United Oilseed Products Ltd.	761,000	1,050,000
Issue of promissory notes	41,000	6,062,000
	$ 24,423,000	$ 24,674,000
Working Capital Applied To		
Capital expenditures for properties	$ 15,141,000	$ 16,565,000
Retirement of long-term liabilities		
Series A debentures	950,000	950,000
Promissory notes and purchase agreement	1,137,000	2,091,000
Patronage dividends	1,968,000	2,010,000
Shareholders' dividends	1,211,000	1,048,000
Investments (note 4)		
United Oilseed Products Ltd.	—	4,000,000
Prince Rupert terminal development	1,965,000	450,000
Northland Bank	108,000	102,000
	$ 22,480,000	$ 27,216,000
Increase (Decrease) in Working Capital	$ 1,943,000	$ (2,542,000)
Working capital at beginning of year	28,136,000	30,678,000
Working capital at end of year	$ 30,079,000	$ 28,136,000

Financial Position
July 31, 1982

ASSETS		1981
Current		Comparison
Cash	$ 6,361,000	$ 6,194,000
Deposits — The Canadian Wheat Board	26,755,000	47,956,000
Accounts and accruals receivable	52,286,000	59,777,000
Inventories (note 3)	175,665,000	221,790,000
Prepaid expenses	2,823,000	2,058,000
	$263,890,000	$337,775,000
Other		
Deferred financing expense	$ 173,000	$ 185,000
Investments (note 4)	6,105,000	8,301,000
	$ 6,278,000	$ 8,486,000
Fixed		
Properties, at cost (note 5)	$165,716,000	$152,392,000
Accumulated depreciation	63,364,000	57,354,000
	$102,352,000	$ 95,038,000
	$372,520,000	$441,299,000

Approved by the Board:

Director

Director

LIABILITIES		1981 Comparison
Current		
Bank loans, secured (note 6)	$ 85,974,000	$135,956,000
Other loans	55,461,000	43,676,000
Unpresented grain and other cheques	70,236,000	106,667,000
Accounts payable and accruals	15,388,000	19,596,000
Income taxes payable	1,123,000	—
Dividends payable to shareholders	1,300,000	1,016,000
Current maturities of long-term liabilities	4,329,000	2,728,000
	$233,811,000	$309,639,000
Long-Term		
Series A debentures (note 7)	$ 17,150,000	$ 18,100,000
Promissory notes (note 8)	5,352,000	6,331,000
Purchase agreement maturing $118,000 annually to 1995	1,413,000	1,530,000
Patronage dividends (note 8)	18,054,000	17,592,000
	$ 41,969,000	$ 43,553,000
Deferred Income Taxes	$ 24,954,000	$ 20,965,000
Commitments (note 10)		
SHAREHOLDERS' EQUITY		
Share Capital (note 9)	$ 18,640,000	$ 17,320,000
Retained Earnings	53,146,000	49,822,000
	$ 71,786,000	$ 67,142,000
	$372,520,000	$441,299,000

Notes to Financial Statements

July 31, 1982

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 $146,104,000. (1981 - $251,882,000)

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.

		1981 Comparison
2. Operating, General and Administrative Expenses		
Operating, general and administrative expenses include —		
Depreciation	$ 7,250,000	$ 6,743,000
Interest on long-term debt	3,953,000	3,530,000
Interest on other debt, net of interest recovered from The Canadian Wheat Board	6,393,000	11,568,000
3. Inventories		
Grain held for the account of The Canadian Wheat Board	$127,761,000	$157,492,000
Grain held for the Company's own account	20,132,000	34,699,000
Farm supplies, seeds and feeds	27,772,000	29,599,000
	$175,665,000	$221,790,000
4. Investments		
United Oilseed Products Ltd.		
Shares, 50% equity, at cost	$ 6,600,000	$ 6,600,000
Share of accumulated earnings (losses) net of dividends received	(3,230,000)	1,039,000
	$ 3,370,000	$ 7,639,000
Prince Rupert Grain Ltd. and Ridley Grain Ltd.		
Advance	$ 15,000	$ 10,000
Shares, 15% equity, at cost	30,000	—
Consortium Notes (note 10)	2,380,000	450,000
	$ 2,425,000	$ 460,000
Northland Bank		
Common shares, at cost	$ 310,000	$ 202,000
Total Investments	$ 6,105,000	$ 8,301,000
5. Properties		
Country elevator properties, feed plants, seed cleaning plants, warehouses and sheds	$101,368,000	$ 91,120,000
Terminal elevator properties	55,292,000	52,562,000
Printing plant equipment	2,940,000	2,899,000
Miscellaneous equipment	6,116,000	5,811,000
	$165,716,000	$152,392,000

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, 1983 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
1984	$ 1,168,000	$ 1,943,000
1985	1,142,000	4,412,000
1986	1,040,000	2,546,000
1987	1,002,000	496,000
1988	1,000,000	—
1989-92	—	4,907,000
	$ 5,352,000	$ 14,304,000
Provision for allocation on 1981-82 grain purchases		3,750,000
		$ 18,054,000

9. Share Capital

		1981 Comparison
Class A non-voting, non-cumulative redeemable preferred shares callable at $24, par value $20 each Authorized 1,200,000 shares; Outstanding 910,156 shares (1981 — 844,226)	$ 18,203,000	$ 16,885,000
Class B (membership) shares par value $5 each Authorized 200,000 shares; Outstanding 87,349 shares (1981 — 87,053)	437,000	435,000
	$ 18,640,000	$ 17,320,000

A portion of the 1980-81 patronage dividend was allocated to customers by the issuance of 65,923 Class A and 1,722 Class B membership shares at par value on July 31, 1982.

In addition, during the year 7 Class A shares were issued at par value and 1,426 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 $3,500,000.

Prince Rupert terminal development

The Company has a 15% interest in a Consortium of six grain companies. On July 12, 1982, the Consortium agreed to proceed with construction of a new grain terminal elevator on Ridley Island near Prince Rupert, British Columbia. The major financing for the project will be provided by the Province of Alberta through first mortgage bonds and participating debentures. Estimated cost of the project is $300 million of which the Company's share will be about $9 million, consisting of Consortium notes and debentures. The Company has provided $2,380,000 to July 31, 1982 and an additional $3,200,000 is expected to be required during the year ending July 31, 1983. It is anticipated that the terminal will be operational by early 1985.

United Oilseed Products Ltd.

The Company, and the other 50% shareholder of United Oilseed Products Ltd., has provided letters of undertaking to secure the long-term lines of credit up to $9 million each and to provide additional capital should either be required.

11. Related Party Transactions

During the normal course of business, the Company borrowed and lent funds at competitive interest rates and purchased products from United Oilseed Products Ltd. The Company also shipped grain to the terminal operated by Prince Rupert Grain Ltd.

Responsibility for Financial Statements

UNITED GRAIN GROWERS LIMITED

The financial statements of the Company for the year ended July 31, 1982 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 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, 1982 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 8, 1982

G. D. Moss
General Manager

Treasurer

Auditors' Report to the Shareholders

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, 1982, 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, 1982 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 8, 1982

Price Waterhouse
Chartered Accountants

Comments on Financial Statements

Earnings

The Earnings statement shows sales and revenue from services of $1,245,694,000 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 $117,403,000 and gain on property disposals of $453,000. Operating, general and administrative expenses amounting to $100,951,000 include interest expense, net of interest recovered from The Canadian Wheat Board, of $10,346,000 and provision for depreciation of $7,250,000. This leaves earnings of $16,905,000 before patronage dividend and income taxes.

Provision for patronage dividend on grain purchases during the past fiscal year is $3,750,000.

Provision for taxes on income is $5,112,000, of which $3,989,000 is deferred.

The Company's share of the net loss of United Oilseed Products Ltd. is $3,508,000, leaving net earnings of $4,535,000 which amount is carried to Retained Earnings.

Retained Earnings

Retained Earnings at the beginning of the fiscal year were $49,822,000. The addition of net earnings brings the total to $54,357,000. From this amount is deducted a dividend of 7% declared on Class A shares, amounting to $1,182,000 and a dividend of $1.38 per share declared on Class B shares, including an appropriation of $29,000 for the past fiscal year and $89,000 appropriated in the preceding three years. Retained Earnings are $53,146,000 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 $4,535,000, items affecting earnings not requiring use of working capital of $18,056,000, proceeds from property disposals of $1,030,000, dividend received from United Oilseed Products Ltd. of $761,000 and issue of promissory notes of $41,000.

Working capital was used during the year for capital expenditures for properties of $15,141,000, retirement of long-term liabilities including Series A debentures of $950,000, promissory notes and purchase agreement of $1,137,000 and patronage dividends of $1,968,000, shareholders' dividends of $1,211,000 and investments totalling $2,073,000.

The net increase in working capital for the year amounts to $1,943,000 (1981 — $2,542,000 decrease) which brings the total to $30,079,000 (1981 — $28,136,000) at the end of the fiscal year. The working capital position of the Company is satisfactory. It indicates financial strength and is an important factor in the Company's ability to borrow large amounts of funds on favourable terms from banks and other lending institutions.

Financial Position

Assets

Cash **$6,361,000**

(1981 — $6,194,000). This is mainly cash in transit to banks but also includes petty cash funds in various offices.

Deposits — The Canadian Wheat Board **$26,755,000**

(1981 — $47,956,000). 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 **$52,286,000**

(1981 — $59,777,000). This includes accounts owing by customers for farm supplies, grain, feeds and seeds. It also includes accrued interest and storage 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 $1,504,000 (1981 — $1,098,000) is carried against possible uncollectible accounts.

Inventories **$175,665,000**
(1981 — $221,790,000). Grain held for the account of The Canadian Wheat Board amounting to $127,760,000 (1981 — $157,492,000) consists of wheat, oats and barley in store in country elevators or in transit purchased for the account of The Canadian Wheat Board. This grain is valued on the basis of purchase prices set by the Board plus handling costs. When this grain is purchased, the Company advances the initial payment to the producer and is reimbursed by The Canadian Wheat Board when the grain is delivered to terminal elevators.

Grain held for the Company's own account amounting to $20,132,000 (1981 — $34,699,000) includes rye, flaxseed, rapeseed and feed grades of wheat, oats and barley. This grain is 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 country and terminal locations.

The remainder of the inventories of $27,773,000 (1981 — $29,599,000) includes feeds, seeds, fertilizers, agricultural chemicals and twine. Stocks of these are carried at many locations to be available as required.

Prepaid Expenses **$2,823,000**
(1981 — $2,058,000). 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 **$263,890,000**
(1981 — $337,775,000). This is the total of the foregoing items and is to be compared with the total current liabilities of $233,811,000 shown on the opposite side of the Financial Position statement. The difference of $30,079,000 is working capital (1981 — $28,136,000).

Deferred Financing Expense **$173,000**
(1981 — $185,000). 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 **$6,105,000**
(1981 — $8,301,000). This includes $6,600,000 representing the cost of one-half of the issued common shares of United Oilseed Products Ltd., less $3,230,000 representing one-half of accumulated losses net of dividends received. It also includes an investment of $2,425,000 in the Prince Rupert terminal development and an investment of $310,000 in common shares of Northland Bank.

Properties, at Cost **$165,716,000**
(1981 — $152,392,000). This represents the cost of properties owned at the year end. The increase mainly includes the cost of improvements and additions of $11,984,000 to country properties and $2,730,000 to terminal properties.

Accumulated Depreciation **$63,364,000**
(1981 — $57,354,000). 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 $7,250,000 (1981 — $6,743,000).

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 account.

Total assets **$372,520,000**
(1981 — $441,299,000). This total is lower than a year ago mainly because of the lower deposits with The Canadian Wheat Board and inventories.

Liabilities

Bank Loans, Secured......... $85,974,000
(1981 — $135,956,000). 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 fiscal year began, interest on these bank loans was at the rate of 21.75% per annum and at the time of writing is 15.00%.

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

Other Loans................. $55,461,000
(1981 — $43,676,000). 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 lend for a brief period of time. Interest rates vary frequently and are generally 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 $70,236,000
(1981 — $106,667,000). 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 $29,400,000 (1981 — $50,400,000) is represented by grain purchase cheques which were post-dated to 1983.

Accounts Payable and Accruals $15,388,000
(1981 — $19,596,000). 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.

Income Taxes Payable $1,123,000
(1981 — nil). These are taxes payable after the close of the year and which were charged to operations of the past year.

Dividends Payable to Shareholders $1,300,000
(1981 — $1,016,000). This represents 7% on the paid-up value of Class A shares as at July 30, 1982, 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%. It also includes the dividend declared on Class B shares at the rates of $0.35 for the 1980, 1981 and 1982 fiscal years and $.033 for the 1979 fiscal year.

Current Maturities of Long-Term Liabilities $4,329,000
(1981 — $2,728,000). Amounts due within twelve months after the fiscal year end are treated as current liabilities. Consequently, this item includes such payments to be made on principal of long-term liabilities.

This amount consists of patronage dividend obligations of $2,120,000, promissory notes of $1,141,000 and instalments on the purchase agreement of $118,000 and on the Series A debentures of $950,000.

Total Current Liabilities $233,811,000
(1981 — $309,639,000). This total has already been compared with total current assets in order to establish the amount of working capital.

Series A Debentures.........$17,150,000
(1981 — $18,100,000). 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 1983 through 1996 with the balance due April 1, 1997 when the debentures mature.

Promissory Notes.............$5,352,000
(1981 — $6,331,000). These are unsecured promissory notes maturing at various dates more than twelve months from the date of the Financial Position statement.

Promissory notes from a major Canadian bank in the amount of $5,000,000 are repayable in annual instalments of $1,000,000 in 1983 through 1987.

The outstanding notes also include $352,000 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..........$1,413,000
(1981 — $1,530,000). 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 1983 to 1995.

Patronage Dividends.........$18,054,000
(1981 — $17,592,000). This includes the amount of $3,750,000 as provided from earnings for a 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 4, 6, or 7%, depending upon the year of issue and are redeemable in varying amounts annually on May 15 until 1992.

Deferred Income Taxes $24,954,000
(1981 — $20,965,000). 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.

Shareholders' Equity

Share Capital $18,640,000
(1981 — $17,320,000). At July 31, 1982, the paid-up value of Class A shares outstanding is $18,203,000 and the par value of Class B shares outstanding is $437,000.

Retained Earnings $53,146,000
(1981 — $49,822,000). This represents the cumulative amount of net earnings reinvested in the Company.

Shareholders' Equity $71,786,000
(1981 — $67,142,000). This includes Share Capital and Retained Earnings and represents the total shareholders' investment in the Company.

Total.......................$372,520,000
(1981 — $441,299,000). 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 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 1982. 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 into 288 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	1982	1981	1980
Operating revenues	$117,403	$101,734	$102,846
Earnings before patronage dividends and income taxes	16,905	10,008	18,968
Net earnings	4,535	7,603	9,195
Working capital	30,079	28,136	30,678
Capital expenditures	15,141	16,565	11,656
Total investment in fixed assets	165,716	152,392	138,054
Accumulated depreciation on fixed assets	63,364	57,354	52,039
Paid up share capital	18,640	17,320	14,930
Shareholders' equity	71,786	67,142	58,197
Cumulative total of shareholders' dividends	19,335	18,035	17,019
Cumulative total of patronage dividends including interest thereon	62,587	58,082	55,675
Statistical			
Country handling — in thousands of tonnes	4,646	4,256	4,235
Elevator licensed storage capacities — in thousands of tonnes			
Country	1,440	1,507	1,552
Terminal	424	424	424
Number of country elevator manager units	347	359	381
Total licensed elevators	510	553	584
Number of employees	1,951	2,028	1,907
Number of shareholders	94,460	93,528	90,053
Number of shareholders' locals	288	291	294

1979	1978	1977	1976	1975	1974	1973
	(000's)					
$78,385	$69,629	$61,640	$57,251	$49,845	$48,638	$37,381
8,989	7,068	2,736	5,955	7,399	13,274	4,729
6,367	3,025	1,280	1.065	2,569	3,374	1,809
18,460	24,473	29,808	19,964	21,252	20,960	13,900
18,119	15,100	12,336	10,307	5,749	4,131	5,808
128,450	111,211	98,894	87,513	78,069	74,196	70,991
46,757	42,680	40,086	36,914	34,072	32,080	30,105
13,661	12,538	12,546	10,428	9,190	6,796	6,797
48,690	42,016	39,810	37,096	35,348	30,798	27,833
16,092	15,303	14,412	13,759	13,229	12,838	12,381
48,546	46,214	43,931	43,319	40,079	36,832	29,255
3,612	4,170	3,734	3,407	2,770	3,088	3,456
1,639	1,666	1,681	1,738	1,756	1,800	1,803
424	424	424	424	424	424	452
	(units)					
402	420	434	452	472	481	492
628	648	669	701	720	750	759
1,908	1,816	1,910	2,104	2,022	2,003	2,100
92,892	87,015	90,651	81,898	77,603	57,798	57,992
299	306	311	313	317	323	327

1982 - 83 Budgets For New Elevator Construction

Interest costs and inflation during the 1981-82 Crop Year continued to challenge decisions regarding capital investment. Budgets are drafted 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 3500 tonne (125,000 bushel) composite elevator at a location where the present plant is beyond repair. The new plant is estimated to cost $900,000.

Projected Long-Run Market Conditions:

- Average handle of 20,000 tonnes.
- Average daily stocks in store of 65% of licensed capacity.
- Average sales of $200,000.
- A balance of revenues and expenses on carrying charge revenues and operating interest costs, and other incidental items.

REVENUES		EXPENSES	
Handling Earnings: $6.70 x $20,000 =	$134,000	**Direct Operating:**	
Sales Earnings: 20% x $200,000 =	$ 40,000	$4.20 x 20000 tonnes =	$ 84,000
Storage Earnings:		**Direct Fixed** =	$150,000
3500 tonnes x .65 x .025 x 365 =	$ 20,759	**Overhead & Administration:**	
Terminal Earnings: 80¢ x 20000 tonnes =	$ 16,000	$2.79 x 20,000 =	$ 55,800
Miscellaneous =	$ 4,000		
TOTAL	$214,759	**TOTAL**	$289,800
		LOSS =	− $ 75,041

Projected Handlings (tonnes)	Projected Sales ($)	Total Revenue ($)	Exp/Tonne Handling ($)	Total Expenses ($)	Net Position ($)
25000	250,000	262,259	12.95	323,750	−61,491
30000	350,000	320,759	11.95	358,700	−37,941
35000	400,000	368,259	11.24	393,650	−25,391
40000	500,000	425,759	10.71	428,600	− 2,841
45000	600,000	483,259	10.30	463,550	+19,709

Conclusions: The above Table setting out the position for Elevator Construction Alternative A, shows that handling of approximately 45000 tonnes (1¾ million bushels) and sales of $600,000 of farm supplies are necessary to ensure better than break even. The market as described would not financially support the development of the 3500 tonne facility.

Construction Alternative B -

Proposal to build a 5000 tonne composite elevator at a point where the present plant is beyond repair. The cost of the new plant is estimated at $1.2 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 30000 tonnes and farm supply sales of $300,000 are projected.

REVENUES		EXPENSES	
Handling Earnings: $6.70 x 30000 tonnes =	$201,000	**Direct Operating:**	
Sales Earnings: 20% x $300,000 =	$ 60,000	$4.20 x 30000 tonnes =	$126,000
Storage Earnings:		**Direct Fixed** =	$198,000
5000 tonnes x .65 x .025 x 365 =	$ 29,656	**Overhead & Administration:**	
Miscellaneous =	$ 5,000	$2.79 x 30000 tonnes =	$ 83,700
TOTAL	$295,656	**TOTAL**	$407,700
		LOSS =	−$112,044

Projected Handlings (tonnes)	Projected Sales ($)	Total Revenue ($)	Exp/Tonne Handling ($)	Total Expenses ($)	Net Position ($)
35000	400,000	377,156	12.64	442,650	−65,494
40000	500,000	434,656	11.94	477,600	−42,944
45000	600,000	492,156	11.39	512,550	−20,394
50000	750,000	560,656	10.95	547,500	+13,156
55000	900,000	622,456	10.59	582,450	+40,006

Conclusions: The above table shows that under Alternative B, a handling of approximately 50000 tonnes and farm supply sales of $750,000 are required to exceed break-even. The operations as initially outlined at 30000 tonnes and $300,000 farm supply sales could not service the capital debt.

The above information illustrates two alternatives on construction of new facilities and the importance of handling and sales volumes wherever new construction is being considered.

APPENDIX B

1982 - 83 Budget For Existing Elevator Renovation

One of the most unpleasant decisions the directors of United Grain Growers must consider is the closure of an elevator that simply hasn't the earnings potential to merit keeping it open any longer. Generally, if a country elevator incurs a relatively small loss year after year, United Grain Growers retains that elevator in the interests of serving customers at the point. However, when a major renovation is required, and a financial analysis of the point shows the renovated elevator never will be able to break even — in most cases, the loss will be increased — then, in the interest of the company and all other customers, that elevator must be closed.

To explore the merits of renovation at specific types of operation, three markets are used in this outline. In the first market, we assume a 7,500-tonne, single elevator point with no growth potential. The second type is a 20,000-tonne, two-company point with some growth potential. The third market is a 60,000-tonne three-company point with growth potential.

For each analysis, the financial position is examined before renovation and then again after renovation. If the facility cannot viably support the renovation — that is, loss for 25 years — the chances are remote that approval would be granted for the renovation project.

A typical renovation project for a country facility would be as follows:

Item	Cost
• New leg and distributor	$ 80,000
• New driveway and 70' scale	160,000
• New office	34,000
• Farm supplies storage	26,000
	$300,000

Projected Long-Run Market Conditions

- Storage capacity of 3,000 tonnes
- Average handle as per example
- Average daily stocks in store of 65% of licensed capacity
- Average farm supply sales as they relate to the market
- A balance of revenues and expenses on carrying charge revenues and operating interest costs.

Revenues		Expenses	
Handling Earnings: $6.70 x 7,500 =	$50,250	Direct Operating	
Sales Earnings: 20% x 75,000 =	15,000	$4.20 x 7,500 =	$31,500
Storage Earnings:		Direct Fixed =	9,500
3,000 tonnes x .65 x .025 x 365 =	17,800	Overhead and Administration:	
Terminal Earnings: $.80 x 7,500	6,000	$2.79 x 7,500 =	20,900
Total	$89,050	Total	$61,900
		Profit	$27,150

1. 7,500 tonne single Company point

Projected Handlings (tonnes)	Projected Sales ($)	Projected Revenue ($)	Without Major Renovation: Projected* Expenses ($)	Without Major Renovation: Projected Net Position ($)	With Major Renovation: Projected** Expenses ($)	With Major Renovation: Projected Net Position ($)
7,500	75,000	89,050	61,900	27,150	108,300	(19,250)

2. 20,000 tonne point 2-company point

Projected Handlings (tonnes)	Projected Sales ($)	Projected Revenue ($)	Without Major Renovation: Projected* Expenses ($)	Without Major Renovation: Projected Net Position ($)	With Major Renovation: Projected** Expenses ($)	With Major Renovation: Projected Net Position ($)
7,500	75,000	89,050	61,900	27,150	108,300	(19,250)
10,000	100,000	112,800	79,400	33,400	125,800	(13,000)
15,000	150,000	160,300	114,400	46,000	160,800	(500)

3. 60,000 tonne point 3-company point

Projected Handlings (tonnes)	Projected Sales ($)	Projected Revenue ($)	Without Major Renovation: Projected* Expenses ($)	Without Major Renovation: Projected Net Position ($)	With Major Renovation: Projected** Expenses ($)	With Major Renovation: Projected Net Position ($)
12,500	125,000	136,550	96,900	39,650	143,300	(6,750)
15,000	150,000	160,300	114,400	46,000	160,800	(500)
20,000	200,000	207,800	149,300	58,500	195,700	12,100

*Assumes average direct operating cost of $4.20/tonne for elevators of different handle volumes.

**A $300,000 renovation cost requires $46,400 of annual debt service cost for each of 25 years at 15% interest.

Conclusions

- **A single company market (7,500 tonne throughput) without growth potential has a remote chance of receiving renovation approval.**
- **An elevator at a multi-company point with 15,000 to 20,000 tonne throughput can be considered for renovation if sufficient growth in handle and farm supplies sales can be achieved to ensure viability.**

UGG Elevator Manager Awards

Gold
25,000 or over tonnes handled

Birch River — Terry Holowachuk
Bow Island — Daniel Kress
Cardston — Burke Thomas
Congress — Larry Thorburn
Dawson Creek — Tom Mumby
Fort Macleod — Bill Rawleigh
Grande Prairie — Bill Campbell
Grandview — Wayne Winters
Hines Creek — Bruce Meashaw
Hussar — Leo Gauthier
Huxley — Allen Avramenko
Landis — Garry May
Legal — Marvin Ruff
Marengo — Richard Reichert
Morden — Ed Hildebrand
Naicam — Ivan Ramsden
Olds — Don Morrison
Plum Coulee — Ben Bergman
Prince Albert — Nick Missouri
Radville — James Gabriel
Rivers — Ron Radford
St. Paul — Dale Fodness

Silver
20,000 to 25,000 tonnes handled

Aberdeen — Ron Stevenson
Arborfield — Thomas Ellis
Barons — Cyril Yates
Battleford — Paul Fertuck
Beausejour — Roger Badiou
Belmont — Ray Mullin
Birch Hills — James Tumback
Brock — Ron Gawryliuk
Codette — Alex Leicht
Crossfield — Roy Fulton
Deloraine — Darryl Lamont
Elrose — Erick Plews
Fannystelle — Harry Trumbla
Foremost — Reinhold Karl
Foxwarren — Roy Freeman
Gilbert Plains — Leonard Price
Hargrave — Bob Brydon
Joffre — Harvey Scott
Lampman — Bill Tooth
Langenburg — Terry Carpenter
Lomond — Angus Duncan
Manitou — Brian Long
Melita — Kelly Wells
Melville — Lyle Hudye
Milk River — Carl Linkletter
Morinville — Bill Kawyuk
Nampa — Sterling Smith
Neepawa — Kelly Pierce
Rosthern — Terry Ellis
Swift Current — Garry Ziebart
Warner — Nick Wiggill
Wilkie — Lyle Penley
Yorkton — John Sabadash

Bronze
15,000 to 20,000 tonnes handled

Assiniboia — John Beatty
Barrhead — Ernie Fischer
Bentley — Stan Beddoes
Biggar — Gord Beckett
Boissevain — Bill Farmer
Boyle — Walter Palkun
Brocket — Ted Watson
Camrose #2 — Merlin Hasiuk
Carlyle — Ted Rutten
Carrot River #2 — Clarence Miller
Carstairs — Bruce Dancey
Claresholm — James Richards
Davidson — Tom Waterhouse
Delia — Bunk Fizer
Dominion City — Jim Anstett
Drumheller — Mel Ashcroft
Eaglesham — Ken Nelson
Falher — Gilbert Nicolet
Fort St. John #2 — Garry Lorenscheit
Fort Whyte — Roy Herfindahl
Fox Valley — Jim Sander
Girouxville — Meinrad Pele
Gladstone — Peter Onufreichuk
Hanna — David Schmidt
Hartney — Ralph Little
Hyas — Randy Griffiths
Innisfail — Garry Baier
Kamsack — Mike Todosichuk
Keg River — Les Freeman
Kelvington — Ken Staresina
Kenaston — Harry Perrick
Killarney — Harvey Nichol
Kinistino — Raymond Leicht
Macklin — Elmer Shewchuk
Manning — Edgar Doyle
Mariapolis — Lionel Fisher
McCreary — Don Glover
Minnedosa — Ron Yager
Moose Jaw — Vic Schapansky
Norquay — Don Kuliasa
Oakville — Randy Fox
Petrel — Ellery Hammond
Porcupine Plain — Dave Hipkins
Portage #1 — Harold Cook
Portage #2 — Jim Vassart
Rathwell — Brian Charett
Richlea — Perry Penley
Ste. Anne — Bill Reimer
Sexsmith — Alf Mielke
Simpson — Alex McCallum
Taber — Ronald Baier
Turin — Dale Rawleigh
Watson — Peter Spizawka
Westlock — Ken McRae
Yellow Grass — Bill Harder

1981 SPECIAL AWARD WINNERS

FIVE YEAR AWARD

MANITOBA

Name	Point	Category
R. A. Badiou	Beausejour	General Farm Supplies
*B. R. Freeman	Foxwarren	Fertilizer
D. D. Lamont	Deloraine	Fertilizer
*R. W. Mullin	Belmont	Weed Chemical

ALBERTA

Name	Point	Category
S. K. Smith	Nampa	Fertilizer

SASKATCHEWAN

Name	Point	Category
*E. Plews	Elrose	General Farm Supplies
D. Hipkins	Porcupine Plain	Fertilizer
R. Gawryliuk	Brock	Weed Chemical
T. Waterhouse	Davidson	General Farm Supplies

TEN YEAR AWARD

**B. G. Long	Manitou	Weed Chemical
*E. Plews	Elrose	General Farm Supplies

*Has received a Five Year Award in another category in a previous year.
**Has received a Ten Year Award in another category in a previous year.

TOP TEN AWARDS

ALBERTA

FERTILIZER			CHEMICALS			GENERAL FARM SUPPLIES		
Name	Point	Value	Name	Point	Value	Name	Point	Value
D. Fodness	St. Paul	$ 742,053	J. A. Avramenko	Huxley	$ 265,800	R. Reynolds	High River	$ 43,687
W. J. Rawleigh	Fort Macleod	615,349	H. J. Cummins	Standard	262,800	W. J. Rawleigh	Fort Macleod	42,349
S. J. Beddoes	Bentley	592,434	S. J. Beddoes	Bentley	247,597	A. Brouwer	Thorsby	41,328
J. A. Avramenko	Huxley	400,793	D. Fodness	St. Paul	225,332	T. Mumby	Dawson Creek	32,230
T. Mumby	Dawson Creek	388,930	W. J. Rawleigh	Fort Macleod	216,617	C. McGuckin	Smoky Lake	33,004
D. G. Morrison	Olds	372,696	T. Mumby	Dawson Creek	160,151	S. K. Smith	Nampa	32,911
S. K. Smith	Nampa	328,846	K. A. Keller	Castor	158,525	R. B. Fulton	Crossfield	31,979
R. Walker	Athabasca	323,877	M. Hasiuk	Camrose #2	156,739	P. Ewasiuk	Elk Point	30,289
E. Doyle	Manning	302,044	J. Paul	Holden	135,495	A. E. Berg	Carseland	28,036
P. Harbarenko	Two Hills	299,653	G. Bodnar	Viking	128,074	A. Mielke	Sexsmith #1	27,109

TOP TEN AWARDS

SASKATCHEWAN

FERTILIZER			CHEMICALS			GENERAL FARM SUPPLIES		
Name	Point	Value	Name	Point	Value	Name	Point	Value
I. E. Ramsden	Naicam	$ 825,807	J. G. May	Landis	$ 297,322	P. Fertuck	Battleford	$ 63,261
E. Plews	Elrose	447,631	R. Gawryliuk	Brock	256,532	G. Ziebart	Swift Current	59,735
E. Shewchuk	Macklin	441,142	W. A. Harder	Yellow Grass	207,472	J. G. May	Landis	45,286
D. Hipkins	Porcupine Plain	405,339	R. Reichert	Marengo	202,117	R. Riechert	Marengo	43,119
T. D. Ellis	Rosthern	345,962	D. Hipkins	Porcupine Plain	193,429	P. Chudyk	Hague	37,655
J. G. May	Landis	293,314	E. Plews	Elrose	189,521	E. Plews	Elrose	37,479
R. E. Stevenson	Aberdeen	256,891	M. Longley	Corning	177,729	H. V. Schapansky	Moose Jaw	34,004
L. Thorburn	Congress	240,274	A. Leicht	Codette	166,701	E. Shewchuk	Macklin	32,546
W. A. Harder	Yellow Grass	235,117	P. Penley	Richlea	165,850	T. Waterhouse	Davidson	32,521
R. Gawryliuk	Brock	228,350	E. Shewchuk	Macklin	159,385	J. E. Tomecek	Kerrobert	29,732

TOP TEN AWARDS

MANITOBA

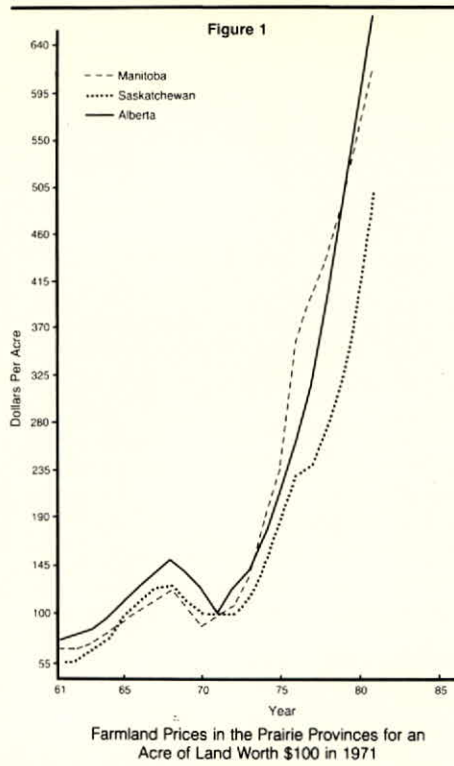
FERTILIZER			CHEMICALS			GENERAL FARM SUPPLIES		
Name	Point	Value	Name	Point	Value	Name	Point	Value
E. L. Hammond	Petrel	$ 593,483	T. Holowachuk	Birch River	$ 342,768	W. W. Reimer	Ste. Anne	$ 75,363
W. W. Reimer	Ste. Anne	551,103	H. J. Trumbla	Fannystelle	212,690	B. G. Long	Manitou	59,172
W. J. Farmer	Boissevain	531,322	W. W. Reimer	Ste. Anne	175,525	R. M. Herfindahl	Fort Whyte	36,477
R. J. Turnbull	Reston	512,019	H. E. Nichol	Killarney	162,638	J. G. Vassart	Portage #2	31,533
R. W. Mullin	Belmont	462,649	R. W. Mullin	Belmont	157,246	H. E. Nichol	Killarney	30,094
C. A. Moffatt	Rignold	430,062	J. R. Wareham	Westbourne	147,232	L. C. Price	Gilbert Plains	22,782
B. R. Freeman	Foxwarren	427,824	R. B. Charette	Rathwell	143,831	B. H. McMullin	Shoal Lake	20,712
T. Holowachuk	Birch River	426,332	R. J. Turnbull	Reston	136,817	D. D. Lamont	Deloraine	19,124
D. D. Lamont	Deloraine	408,904	B. G. Long	Manitou	136,008	E. L. Hammond	Petrel	17,703
R. E. Yaeger	Minnedosa	382,498	L. C. Price	Gilbert Plains	128,421	R. A. Badiou	Beausejour	16,239

An Analysis of Farmland Price Changes

Daryl F. Kraft
Associate Professor, University of Manitoba

For ten years the Prairie farmland market recorded unparalleled price increases. In 1982 the price escalation stopped. Is the market resting temporarily at these lofty prices and recharging to take off again or are the prices about to fall? Should buyers be postponing intended purchases to strike a better bargain next year? Have farmland owners hoping to cash in on their windfall gains waited too long? Precision answers to these questions are not possible but my opinions will be offered and the rationale behind the forecast given.

Back in the early 1970's I predicted a record price increase would occur. Will the same rationale leading to those conclusions also forecast a price decrease? This article will review the rural real estate market over the past 20 years to develop a perspective of what happened and what were the causal factors. Given the background, a reader will be in a better position to ascertain what is happening now and where the rural real estate market may move in the future.



Farmland Prices in the Prairie Provinces for an Acre of Land Worth $100 in 1971

Recent Price History of the Prairie Farmland Market

During the past two decades the farmland market rose between 1960 and 1968, fell steadily until 1972 and increased dramatically since then. Figure 1 shows the price movement for an acre of land which sold for $100 in 1971. At the end of the 1950's, the land could have been purchased for between $55 and $75 per acre. By 1968, prices exceeded $120 per acre only to fall to $100 by 1971. Ten years later the same land in Saskatchewan would be appraised at $500 per acre, Alberta $660/acre and Manitoba $615/acre.

Between 1960 and 1968, prices increased 7 per cent to 8 per cent annually. Prices fell at an average annual rate of between 5 per cent and 6 per cent from 1968 to 1972. Since 1972, the average annual price increase has been 19.9 per cent in Manitoba, 17.5 per cent in Saskatchewan and 20.8 per cent in Alberta.

The behaviour of farmland buyers and sellers has been influenced by many economic conditions. And the majority of the sellers and buyers were farmers. Absentee buyers were more prominent in the 1970's, their influence upon prices was limited to markets where they purchased more than 20 per cent of all land sold. Farmers are the major group in the farmland market and attitudes within the rural community are most important in moving the price of land.

Market Activity

On average, the title to a piece of farmland will change ownership every 20 to 25 years. In urban markets the turnover is every four or five years. Buyers own farmland four to five times larger than owners of urban real estate. But less than between 4 per cent and 5 per cent of all farmland is sold each year because many of the title transfers are not bonafide sales. Title transfers between husband and wife, father and son, uncle and niece, and sister and brother occur every year and are between 1 per cent and 1.5 per cent of all privately owned land. Therefore, in a typical year, the farmland price is determined by 2.5 per cent to 4 per cent of the total land base selling. In Manitoba between 3 per cent to 4 per cent of the farmland changed hands up to 1968. As the market price peaked in 1968, bonafide transactions fell to 2.5 per cent and were less than 2 per cent of all privately owned land in 1969 and 1970. Data is not available for Saskatchewan and Alberta but similar relationships are expected.

In these market conditions, willing sellers offer land at the previous high price but buyers are reluctant to invest in farmland. Unlike some products, a falling farmland price does not attract new buyers to increase the volume of transactions. In some regions, the legitimate transactions are so infrequent the existence of a market at the quoted prices must be questioned. If an owner had to sell some land the negotiated price may be much lower than the comparable sale a few miles away. If many owners were unable to postpone the sale of the farmland between 1968 and 1971, the price would have been lower than the market indicated.

Buyers attitudes toward a farmland investment changed in 1972 and 1973. Total sales in 1973 exceeded 7 per cent of all Manitoba and Alberta farmland. The backlog of postponed sales from 1968 through 1971 began to clear the market. Again in 1974, more than 7.4 per cent of all privately held farmland changed ownership in Alberta and Manitoba. Since then, transactions have averaged between 4 per cent and 6 per cent of all privately owned farmland.

Between January and June, 1982, transactions in Manitoba have declined and if the trend continues for the last six months, total transactions could fall below 4 per cent for the first time since 1970. In Saskatchewan, land title registrations between January and April, 1982, have fallen by 40 per cent when compared to 1981. Total ownership transfers could be as low as 3 per cent of all privately held farm-

land in Saskatchewan. Total farmland changing ownership in Saskatchewan was 2.3 million acres in 1978 and 1979 and dropped to 1.8 million in 1980 and 1981. If the four month market activity continues through 1982, only a million acres will change ownership.

Given the reduced transactions and the normal variation in recorded prices for farmland the 1982 price data for the first six months in Manitoba and Saskatchewan do not indicate a significant movement upward or downward from the 1981 prices. Some regions indicate slightly higher prices while in others the prices are lower. The reduced transactions and no clearly identifiable price changes suggests prices in the farmland market may have temporarily peaked in late 1981 and early 1982.

Present sellers are asking prices which reflect sales over the past year and buyers are reluctant purchasers. Land is on the market for a longer time period but most owners are able to postpone selling if a satisfactory offer is not forthcoming.

Buyer Characteristics and Expectations

What causes buyers to change their attitude on a farmland investment? In Manitoba, over 90 per cent of the buyers reside in rural areas. Saskatchewan and Alberta are expected to have a comparable number of farmers in the rural real-estate market. From a 1980 survey of farms coordinated by the Farm Credit Corporation, a financial picture of a typical buyer is available. Liabilities in terms of outstanding debt held by farmers averaged only 9.3 per cent of total assets in Alberta, 16.8 per cent in Saskatchewan and 14.9 per cent in Manitoba.

For the group of farms exceeding $400,000 of total assets, the farm liabilities as a percentage of assets in Manitoba, Saskatchewan and Alberta were 9.4, 11.2 and 13.7 per cent, respectively. Assuming these farmers are typical buyers then terms of credit are less important because of the sizable equity base. Borrowed money was required to make up at least 60 per cent of the capital invested by farmers. However, given their low debt position, the annual payments related to the added investment could be met from other revenues besides the new land purchase.

A farmland investment did not have to generate sufficient cash flow to meet the added mortgage payments. Instead, a farmland investment is cross subsidized from the income originating from other land, livestock or off-farm income sources. Interest rates, length of the mortgage, and down payment required have minimal influence on the typical farmland investor's decision to buy or postpone investing because their large equity base assures them the added debt obligations can be carried comfortably.

If rising interest rates do not cause farmland investors to keep their money in a savings account and falling interest rates will not attract buyers into the market, then what causes attitudes to change? Farmland provides two sources of income: to an absentee owner, it is the yearly cash or share rent; and to an owner operator, it is the income remaining after all operating costs required to produce a crop have been paid.

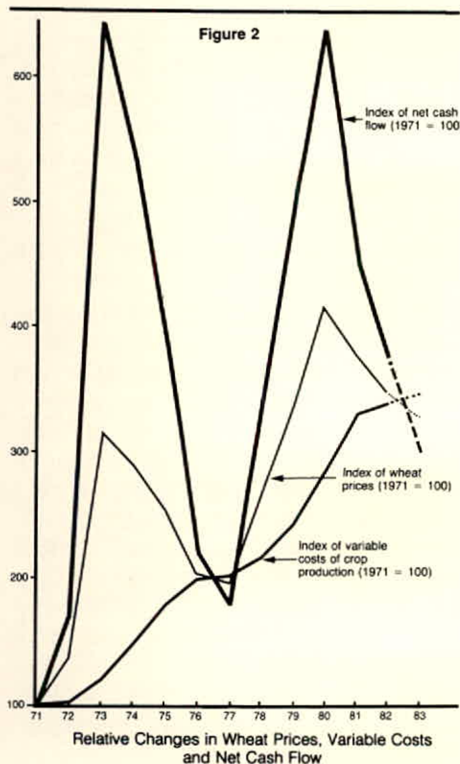
In either case the share rent or the income remaining have rarely exceeded 9 per cent of the purchase price of land in any year and normally ranges between 4 per cent and 6 per cent. This is not a large dividend.

The second source of income is the value of land when sold. Farmland values appreciated between 7 per cent and 8 per cent in the early 1960's, depreciated from 1968 to 1971 between 5 per cent and 6 per cent per year, and have appreciated between 18 per cent and 20 per cent annually during the 1970's.

The combined returns of rent plus appreciation would have yielded the investor between 14 per cent and 15 per cent from a farmland investment in the 1960's, and in excess of 20 per cent for a purchase in the early 1970's. Investment attitudes are linked closely to these expected earnings.

During the middle 1960's, expectations were raised because of expanded grain sales to Russia and China. Grain prices rose more rapidly than operating costs. Anticipating these profitable conditions to continue into the future, farmers sought to expand their operation through land purchases. Added buyer competition bid prices up. This, in turn, reinforced investors expectations on future earnings as land was rising in value.

Grain prices started to fall in 1967 but were not completely realized by farmers until the final payments 18 months later. Grain sales were declining and stocks accumulating. However, land investor expectations did not change in 1967 because of the continual increase in farmland prices and an unwillingness to revise their outlook on the prairie grain economy. By 1968, attitudes were changing as land sales dropped and prices edged up slowly.



Relative Changes in Wheat Prices, Variable Costs and Net Cash Flow

Land prices did not fall until 1969, the third consecutive year of declining grain prices. Farmers were less interested in adding to their land holdings as they could not sell their grain from the present landbase. Grain prices, land rents and grain related income did not decline or increase between 1969 and 1971 but land prices continued to fall. Prices were in excess of 20 times the share rent.

By 1972, farmland prices had fallen to a level of 20 to 30 times the share rent. Between 1969 and 1970, land prices were 35 to 50 times the annual rental rates.

The 1970's brought two major grain pricing events, 1973 and 1980, and inflating operating costs for grain production. Figure 2 illustrates these relationships through an index on wheat prices, variable grain production costs and net cash flow which is available for investing in land, buildings and equipment.

Using 1971 as the base year, the indices show operating costs doubled by 1976 and were over three fold higher by 1981. Wheat prices tripled between 1971 and 1973, fell the four following years and were only twice as high in 1977 as they were in 1971. Between 1977 and 1980, wheat prices doubled again. Since 1980 grain prices have fallen and the expected average price received in 1983 appears to be lower than 1982.

The net effect of the grain price changes and the rising operating costs are reflected in the index on net cash flow available for investment. In 1973 these funds increased over six-fold. This represented returns to money invested in farmland and equipment. Nineteen seventy-three farmland prices increased between 15 per cent and 25 per cent over 1971 levels, annual earnings were up 600 per cent. Attitudes concerning the profitability of a land investment became extremely bullish.

The buyer competition bid prices up. By 1976, farmland prices had doubled and the earning capacity of land had fallen from a six-fold increase in 1973 to slightly more than doubling by 1976. Between 1971 and 1976/1977, grain prices had doubled, costs had doubled, and net cash flow had doubled. Farmland increased between two and one-half to three times its level in 1971.

In 1977, farmland prices would have stabilized or fallen if grain prices had not taken off again in 1978. Three years of rising wheat prices between 1977 and 1980 reinforced investor attitudes on the desirability of owning farmland. By 1980, the annual earnings on farmland had increased six-fold above the 1971 base but by now farmland prices had risen 400 per cent in Saskatchewan, and 550 per cent in Alberta and Manitoba.

Earnings had risen but so had the cost of acquiring farmland. To maintain the bullish investor attitude toward farmland, the earning capacity or net cash flow would at least have to be maintained at a level comparable to the price of farmland. This has not happened.

The index on net cash flow has fallen two years in a row. In 1981, it was down to 450, by 1982 it fell to 375 and is forecast to be only 300 for 1983. Farmland prices in 1981, for the same land that sold for $100 per acre in 1971, were $500 per acre in Saskatchewan, $615 per acre in Manitoba, and $660 per acre in Alberta. The price of land has risen more than its current income earning capacity has grown.

In 1976 and 1977, farmland prices had also out paced its income earning capacity but imbalance between price and income was not as great as it was in 1981 and 1982. A land price realignment with 1976/77 earning did not occur because grain prices rose in 1978. A similar reinforcement of future earning capability is highly improbable in 1983 as wheat would have to exceed $6.00 bushel.

The Future

If buyers revise their future expectations on the earning capacity of farmland down to current income producing levels, offering prices for farmland could drop 50 per cent. Such a dramatic revision is unlikely to occur because buyers do not base their expectations just on current events but consider economic conditions over the past few years.

No conditions have existed in the past 10 years which would justify buyers paying more for farmland than it is currently selling for. The most optimistic picture for sellers would be no price change. However, this is not likely. If buyers believe the future earnings to reflect the most immediate conditions, they will wait until land prices drop to 20 or 25 times their rental value.

What buyers believe to be the future earning capability of farmland determines the maximum they will pay for land. Every buyer has a different crystal ball. Those who say land is a good hedge against inflation must believe grain prices will increase more rapidly than farm operating costs. During current grain market conditions this belief is under continual scrutiny. Buyers are reluctant to put their money where their thoughts are. Modest declines in land prices will not cause the normal amount of buyers to invest.

How far the farmland price will fall in 1983 depends not so much upon buyer expectation but how long sellers can postpone accepting a price below what they were anticipating. If many forced sales occur because of debt consolidation or foreclosure, farmland prices could drop at a record rate.

In spite of the immediate bleak outlook for the farmland market, the long run indicators suggest higher prices are likely to occur. Growth of world grain producing capacity is tied closely to petroleum-based inputs and will not increase unless commodity prices keep pace with these input costs. This can only mean upward pressure on commodity prices and the landbase producing grains and oilseeds.

United Grain Growers commissioned this analysis by Daryl F. Kraft, Agricultural Sciences Department, University of Manitoba.

APPENDIX E

Farm Safety

The following article was published in the December, 1981 issue of *Grainews*. Some 63,000 safety decals were provided to farm families who requested them.

I knew something was wrong the second I drove in the yard. Our three youngest children, Charles, 12, Sharon, 10, and Lenny, 7, were huddled on the back steps crying. Fourteen-year-old Georgia yelled incoherently and hysterically, and pointed toward the grove of trees.

My legs turned to rubber and I couldn't breathe, but somehow I ran out to the tractor. My husband, Duane, was bent over the part where the blades chop the corn stalks into chowder. The sleeve of his old tattered jacket was down in the roller past his elbow. I looked and saw his arm was gone, chopped off halfway between the crook of his arm and his shoulder. I screamed.

"Duane!" I cried again and again. He didn't answer. I lifted his head. It rested on a black plate over the opened shield which read: "Before opening, disengage power take-off." His head fell forward. Some green chopped stalks stuck on his mouth.

I beat on his back, listened for a heartbeat, felt for a pulse. Despite the lack of response, I tried to think of what I could use for a tourniquet.

"He's dead," Charlie sobbed, "and it's my fault. I didn't go the first time he called."

Heart in my mouth, I raced to the house. Sharon and Georgia yelled something about the phone, but I didn't hear. I dialed and dialed, yelling into the receiver. That's what the girls tried to tell me: the phone was out. Finally, I heard a faint voice over the static-fouled line. "Get the rescue squad out here," I cried. I had to repeat the directions three times.

How ironic. I was training for life-saving the day Duane got his arm caught in the silage chopper and bled to death.

Safety, like charity, should begin at home. But, for us, that's a mute point now. Duane and I were both safety conscious. He was on the safety council at National Poly Products where he worked full time. He farmed our 160-acre farm evenings and weekends.

I was aware of the hazards involved when working with farm machinery. That's the reason I was active in our community rescue class.

That day, our rescue class was working on evacuation from burning buildings. I was nervous during the meeting and missed my rope descent twice, remembering that Duane always got in a hurry when he was getting the corn in.

That night, I pieced the story together while we huddled in the darkened living room, crying. When Duane first yelled, Charlie, my 12-year-old son, thought it was one of our goats.

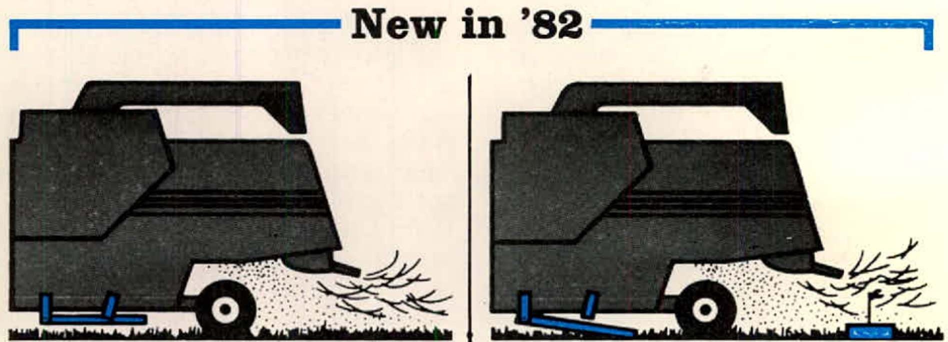
"When I heard him yell again, I said, 'Oh, God, no, don't let it be what I think it is'," Charlie said. "I didn't know how to stop the power take-off, so I turned the tractor motor off. When I got up on the machine and tried to pull him out and saw the arm was gone, I froze. I prayed real hard and God didn't answer my prayers."

"Prayers aren't always answered the way we want," I said. "Maybe Daddy died so others wouldn't lose their lives the way he did."

These were just words of comfort. I knew Charlie suffered guilt feelings and that I mustn't let him blame himself for his dad's death.

Perhaps it was my fault. For weeks I'd been concentrating on life-saving, but I hadn't taught my own children what to do in emergencies. Perhaps it was Duane's fault. How many times I'd told him not to wear that old, loose, tattered coat around moving equipment. Perhaps it was nobody's fault. With six children, seven to 17, God knew we'd have trouble enough surviving without a breadwinner, that we could do without a load of guilt.

Why hadn't Duane been more careful? How many times had I said to him



The Bartko Box is mounted under the chassis of the combine (left). An electric release switch inside the cab discharges the box to take a grain sample loss reading. The Box is clearly marked and rests on the ground without being affected by the grain stubble.

PAMI recommends that combine losses be checked directly behind the combine. This is best done using a drop pan of sufficient size to obtain a representative sample.

PAMI is testing the Box during this fall's harvest.

as he walked out the door, "Be careful." He'd look at me with his head to one side. "Be careful," I'd repeat. "We love you." Then he'd tip his cap over his big nose, smile and walk out the door.

A few days later, I asked Charlie to return grace. He shook his head. One night I hugged him and said, "Want me to hear your prayers?"

"I don't pray anymore," he said. "Prayers aren't answered."

Twelve, and he'd lost his faith. That night, I couldn't sleep. If, somehow, I could make some meaning for Charlie out of what had happened . . .

If only there had been some way to remind Duane to be careful, that we loved him, he would have slowed down, wouldn't have raised that shield without proper precautions.

When I said, "Be careful," he didn't pay much attention, but everytime I added, "We love you" he'd cock his head, grin and tip that cap. I finally dozed to a litany of "be careful, we love you; be careful, we . . ."

While the oatmeal cooked and the children dressed, I picked up a pencil and wrote: "Be Careful We Love You." I turned the paper over and drew a heart. In the center, I printed "Please Be Careful, We Love You." Beneath the message, I scrawled the signature, "Your Family."

I picked up a marking pencil and colored the heart red. If something like this, with adhesive backing, was pasted over all those little black boxes that said, "Disengage PTO before opening," or if this message in red appeared where there were black block letters near all dangerous areas, maybe lives would be saved. If just one family could be spared our tragedy.

"Be careful, we love you. Isn't that a bit mushy!" the Minnesota Farm Bureau president said when I presented my safety sticker idea.

"Would it be mushy if you had your arm caught in machinery?" his wife replied. "One of those stickers is going on our door where it is the last thing you see when you leave."

It's hard to measure how many lives are saved with safety programs or Be Careful decals. You could say the impact of the stickers and the emergency programs is intangible.

You can say that, but I can't. For, somewhere along the way, Charlie started praying again.

Annual Report readers who desire the Safety Decals can write to Safety Decals, UGG, Box 6600, Winnipeg. Please enclose a stamped, self-addressed envelope and limit requests to 12 decals per family.

APPENDIX F

Western Grain Transportation Enquiry

Summary of Major Recommendations

(1) It is recommended that the total cost to the two national railways of transporting grain for the base year 1981-82 be set at $792.7 million. After adjusting for productivity gains within the system and after deducting the revenue generated by the statutory rate, it is further recommended that the total railway revenue shortfall for 1981-82 be set at $644.1 million.

(2) It is recommended that the railway revenue shortfall of $644.1 million, referred to as the "Crow benefit", be paid by the Federal Government on a continuing annual basis. However, it is recommended that this "Crow benefit" be phased in during the 1982-83 to 1986-87 period.

(3) It is recommended that the annual Federal payment relating to the "Crow benefit" be made totally to the railways in 1982-83; each year thereafter an increasing proportion of this payment is to go directly to the producers until 1989-90 when the proportion becomes 81% to the producers and 19% to the railways.

(4) It is recommended that the producers be given the choice of two methods in receiving the payment of their proportion of the Crow benefit:

(a) The first option would involve direct payment to the producers at the beginning of each crop year with the producer, in turn, being directly responsible for paying his own transportation charges.

(b) The second option would involve the establishment of a freight credit account for each producer at the beginning of each crop year, and this account would be drawn down by the producer as he made deliveries throughout the year.

(5) It is recommended that an "Agricultural Adjustment Payment" be made to all grain producers and that this payment should be phased down over a period from 1983-84 to 1988-89. This payment is intended to offset, during an interim period, the adverse effects on certain commodity groups of the proposed changes in the statutory rate which has been in effect for 85 years.

(6) In order to remove anomalies relating to the exclusion from statutory rates of canola and linseed meal moving to the west coast as well as canola oil and linseed oil, it is recommended that these products be included under the new statutory rate structure.

(7) It is recommended that a Central Co-ordinating Agency, to supersede the present Grain Transportation Authority, be established with the responsibility to decide, with a set of principles and guidelines, the performance and service guarantees to be undertaken by the railways, and the efficiency and economy measures to be undertaken in future years in the overall grain handling and transportation system.

(8) In return for being compensated, it is recommended that the railways' performance and service be assured in the following manner:

(a) That Transport Canada administer the performance and service bonuses based on decisions and recommendations of the Central Co-ordinating Agency.

(b) That the railways receive the first 12% of the contribution to constant costs as part of the rate structure and that the remaining 8% of that contribution plus all line-related variable costs be related to performance.

(c) That the railways' investment plans and expenditures in western Canada be monitored by Transport Canada to ensure that fair and reasonable levels of investment are being made in the grain branch line network.

(9) It is recommended that steps be undertaken to promote increased efficiency and economy measures in the operation of the grain transportation system. Specifically, it is proposed that:

(a) The Central Co-ordinating Agency be responsible for the promotion and encouragement of these efficiency and economy measures within the system.

(b) Any productivity gains in the system be shared in some manner between the railways and the producers, and with the Federal Government where feasible and appropriate, thus providing a continuing incentive to all parties concerned to initiate and encourage efficiency and economy measures within the system.

(10) It is recommended that future cost increases be shared in the following manner:

(a) For the period 1983-84 to 1985-86, the cost increases be shared equally between the Federal Government and the producers up to a maximum of 3% annual increases for the producer.

(b) For the period after 1985-86, the shippers would pay the first 3% of cost increases and share equally with the Federal Government the next 3% increases with an aggregate maximum of 4½% for the producers.

(c) That the cost of transporting future volume increases beyond the 1981-82 base amount of 30.4 million tonnes

(including inflation increases on those additional amounts) be borne by the producers of the commodities concerned.

(11) In view of the unpredictable fluctuations in grain prices, and keeping in mind the need to relate freight rates to the producers' capacity to pay, it is recommended that consideration be given to the feasibility of establishing some form of Grain Freight Rate Stabilization Fund which would be operated along the lines of the Western Grain Stabilization Program.

(12) It is recommended that the legislative framework include a commitment by the Federal Government to the annual payment of an amount equivalent to the 1981-82 railway revenue shortfall, the agricultural adjustment shortfall, railway performance and service guarantees, continued Federal financial commitment for branch line rehabilitation, provision for periodic reviews, annual setting of rates, sharing of future cost increases, administration of payments to the railways and the producers and the establishment of a Central Co-ordinating Agency.

(13) Throughout the consultation process, continual reference was made to the need for a periodic review of the new arrangements, including legislation to ensure that the comprehensive approach adopted in 1982-83 was effective and was achieving what it was originally intended to do. Accordingly, it is recommended that a major review be undertaken in 1985-86 of such items as railway costs, the payment system, the branch line rehabilitation program, the agricultural adjustment program and the railway performance and service guarantees.

VII. Conclusions

During the consultation process, the initial positions taken and recommendations made on the many items relating to grain transportation in western Canada, varied considerably among the organizations. On some of the items, there appeared to be a general agreement among all of the organizations. On other titems, there were significant differences of opinion and points of view expressed within the group.

That there were differences in points of view brought to the early discussions is not surprising. The participants involved in the consultation process were selected specifically because they represented the wide diversity of interest groups and concerns associated with the western agricultural industry and the grain handling and transportation system. In the final analysis, it is within the highly diverse economic and institutional framework that answers must be found and policies developed for the grain transportation system in western Canada.

But these differences should not obscure the many fundamental interests and points of view shared by the group. They were bound together in the consultation process by the common recognition that there were serious problems associated with grain transportation in western Canada and that a comprehensive long-run solution was required if the full potential of western Canadian agriculture was to be realized.

It would be presumptuous to think that complete consensus was possible on every aspect of a topic as diverse, complex, and far-reaching in its implications as western grain transportation. But what is important is that the results of the consultation process have provided the general basis for a comprehensive approach to the western grain transportation issue.

Source: Western Grain Transportation Report on Consultations and Recommendations. Executive Summary.

APPENDIX G

Federal Government Deficits are the Cause of Inflation

The latest rumour around Ottawa is that the federal deficit, rather than being "limited" to the $20 billion forecast in the June budget, will hit the $25 billion mark. What does this mean to us as citizens?

The deficit is the difference between what the federal government spends and the revenue it takes in in the form of taxes and other income. In order to place the problem in perspective, we provide a graphic overview of the Canadian federal government deficit in the interval 1926 to 1981. Chart 1 represents the deficit in nominal terms, that is to say in dollars of the year in which the deficit was incurred. Chart 2 indicates the rapid rate at which government has been piling up liabilities — on our behalf. These now amount to $5607 per person, or over $22,000 per family of four.

It is clear from the first chart that Canada has experienced two periods of major deficits at the federal government level. The first of these was the war period, 1940-1945, and the second is a period commencing in 1974, which has extended more or less to the present time.

Other than for these two major episodes, the general impression seems to be that, although there were deficits in some years and surpluses in others, there was no consistent tendency for either to predominate. In fact, considering the period from 1926 to 1974, there was no distinct period of time during which the federal government ran a consistent deficit — other than in association with the waging of war or as in the period around 1932, to maintain expenditures in the face of falling revenues occasioned by the Great Depression.

Three alternatives

This deficit, or revenue shortfall, can be made up by the government 1) by printing money, 2) by raising taxes, or 3) by issuing bonds. Barring any cut in government expenditures, these are the only possibilities.

However, each of these alternatives is fraught with great dangers for the Canadian economy. Massive printing of new money, of the sort that would be needed to finance a continuing Canadian debt of present size, could, in the extreme case, result in the sort of hyperinflation suffered by Germany in the 1920s. Explains economist Ludwig von Mises:

> *The course of a progressing inflation is this: At the beginning the inflow of additional money makes the prices of some commodities and services rise; other prices rise later. The price rise affects the various commodities and services at different dates and to a different extent.*
>
> *This first stage of the inflationary process may last for many years. While it lasts, the prices of many goods and services are not yet adjusted to the altered money relation. There are still people in the country who have not yet become aware of the fact that they are confronted with a price revolution which will finally result in a considerable rise of all prices. These people still believe that prices one day will drop. Waiting for this day, they restrict their purchases and concomitantly increase their cash holdings. As long as such ideas are still held by public opinion, it is not yet too late for the government to abandon its inflationary policy.*
>
> *But then finally the masses wake up. They become suddenly aware of the fact that inflation is a deliberate policy and will go on endlessly. A breakdown occurs. The crack-up boom appears. Everybody is anxious to swap his money against 'real' goods, no matter whether he needs them or not, no matter how much money he has to pay for them. Within a very short time, within a few weeks or even days, the things which were used as money are no longer used as media of exchange. They become scrap paper. Nobody wants to give away anything against them.*
>
> *It was this that happened with the Continental currency in America in 1781, with the French mandats territoriaux in 1796, and with the German Mark in 1923. It will happen again whenever the same conditions appear. If a thing has to be used as a medium of exchange, public opinion must not believe that the quantity of this thing will increase beyond all bounds. Inflation is a policy that cannot last.*

Nor will a resumption of wage and price controls help us out of this impasse, as some people have contended.

According to an analysis of the effects of the 1975-1978 Anti-Inflation Board in two Fraser Institute books, *The Illusion of Wage Price Controls* and *Which Way Ahead: Canada after Wage and Price Control,* these regulations ignore the real cause of inflation — the creation of excess cash by the monetary authorities. In attacking the symptoms and not the underlying cause, wage price controls are thus doomed to failure.

Wage and price controls are not the answer

In addition, wage and price controls are responsible for a whole rash of negative side effects, not unanticipated by their sponsors. These include labour and resource misallocations, which result in malinvestments, distortions, shortages, long queues, and inefficiencies. These, in turn, create a demand for rationing, which leads to subterfuge, black markets, and a general disrespect for the law. Moreover, market prices and wage rates are the means of communicating economic signals to producers. When prices and wages are inflexible, the information upon which a productive society depends cannot percolate through to economic decision-makers. This is precisely why the economies of the communist countries limp along so inefficiently. The absence of flexible market prices prevents crucially important information about consumer needs and wants from being made known to the decision-makers. Strict wage price controls, of long duration, would consign our economy to a pattern similar to that of the communist bloc, they would hamper desired shifts in the employment of labour and natural resources.

Says Ludwig von Mises in his monumental work *Human Action:*

If interference with commodity prices, wage rates, and interest rates includes all prices, wage rates, and interest rates, it is tantamount to the full substitution of socialism for the market economy. Then the market, interpersonal exchange, private ownership of the means of production, entrepreneurship, and private initiative, virtually disappear altogether. No individual any longer has the opportunity to influence the process of production of his own accord; every individual is bound to obey the orders of the supreme board of production management.

It is important, however, not to confuse wage and price controls with the 6 & 5 system, *applied to government alone.*

This 6 & 5 plan, of course, will not cure inflation. For inflation is ultimately caused by too many dollars chasing too few goods. (In the classical Misesian definition, inflation *consists* of an increase in the quantity of money. Decreased purchasing power of the dollar, such as higher prices, are only the result of inflation, not "inflation" itself. It cannot be stopped until government slows its monetary creation.)

But, when applied only to government, the 6 & 5 program is certainly welcome. It serves notice that at last government stands ready to hold the line on the insatiable expansion of public sector payrolls.

An announcement that government is now prepared to deal prudently with its *own* employees is certainly long overdue. However, if this spills over onto the private sector, and attempts to dictate the terms of wage and price contracts involving firms and individuals, it would be an unconscionable violation of individual rights, as well as an economic disaster.

The danger of high taxes

The second method of dealing with a deficit is to raise taxes. But there are also grave dangers involved here. As shown in a Fraser Institute study *Tax Facts 3,* Canadians are already heavily burdened in this regard. According to Institute calculations, our Consumer Tax Index has risen by an astounding 515% since 1961. This compares rather unfavourably with increases during the same period of the general consumer price index, which rose by 181%. Things have come to such a pass that the average Canadian now pays more in taxes than for food and shelter combined — a complete reversal of the situation in 1961.

Says Ludwig von Mises:

Taxes are necessary. But the system of discriminatory taxation now in effect is not a mode of taxation. It is rather a mode of disguised expropriation of the successful capitalists and entrepreneurs. Whatever arguments may be advanced in its favor, it is incompatible with the preservation of the market economy. It can at best be considered a means of bringing about socialism. Looking backward on the evolution of income tax rates from their beginning until the present day, one can hardly believe that the tax will not soon absorb 100 per cent of all the surplus above the average height of the common man's wages.

Crowding out the marketplace

But if printing money and raising taxes is not the answer, then neither is the third alternative, the issuing of bonds, for this brings about still other problems. By issuing debt, a government secures command over goods and services only by convincing some individual or group in society to give up its own purchasing power for a specified period of time. If it opts for this alternative, it will raise interest rates above the levels which would otherwise have been reached, and, in the process, leave less for investment and private expenditures. The consequences are likely to be serious and long lived—with dire implications for our living standards. The reason is because of the nature of the private and public sectors.

Private savings not taxed away by, or lent to, government results in increased investment. Government expenditures, in contrast, usually results in current consumption of savings, that is to say, payments for goods and services which are consumed during the current year. As a consequence, the normal absorption of potential savings which occurs when governments run a deficit, causes the economy to allocate more of its available resources, to current consumption. Less is devoted to long term productive capital investment. This leaves the economy less productive, thus lowering future living standards. Even in those instances where government itself spends for the long run, evidence suggests that these investments are usually less productive than comparable investments made in the private sector. (Exceptions to this may include expenditures for defense, public roads, police, courts and other *limited* functions of government.)

To put the point bluntly, savings used by government this year to pay for the activities of the Secretary of State, for example, are obviously of less value in satisfying customers than money used to open or expand a plant or mine. In any case, the demand for labour will be reduced by falling private investment as a result of governmental expenditure on current services. It is not beyond the realm of possibility that increased expenditures for unemployment insurance benefits will enlarge the government deficit; that, in order to be financed, this will reduce private investment still more; that this, in turn, will further decrease the demand for labour, and that this will lead to more expenditures on unemployment insurance. What a vicious circle!

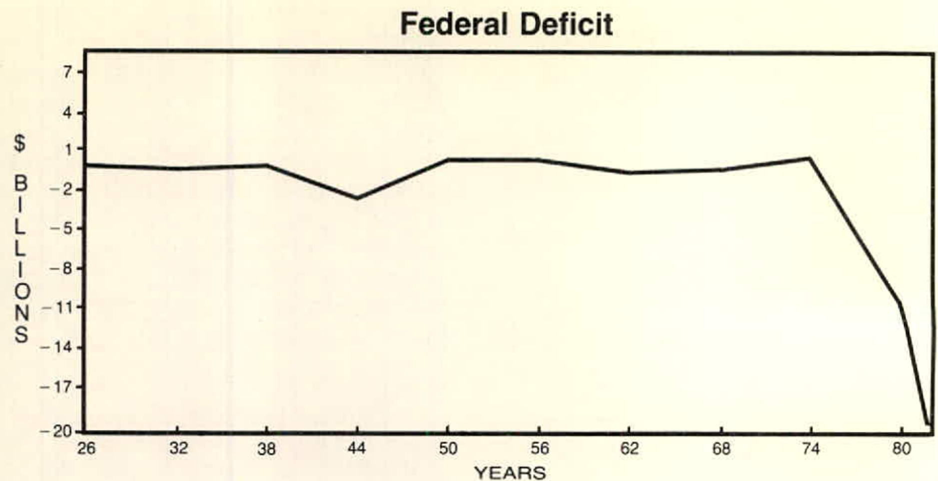
Tax deferral

The substitution of debt for taxes, moreover, only postpones the difficulty. In the days when governments could sell bonds yielding five per cent, "financing" the deficit by issuing bonds would defer the tax burden for about 63 years. That is, a deficit incurred in any particular year could be financed by issuing a bond at 5 per cent; in subsequent years, the interest

could be paid by issuing more bonds. In this way, the actual tax burden of the deficit could be pushed far into the future. By the end of 63 years the accumulated interest on the original bond and all the bonds issued to pay the interest would add up to the initial deficit. In other words, because of the "compounding" of interest, the total interest payments steadily increase until they equal the original deficit.

The situation is altered dramatically when interest rates rise. For example, currently one-year Government of Canada Bonds fetch about 13.5 per cent in the marketplace. At this rate of interest, the period of deferral is reduced to about 16 years. That is, if the current $20 billion deficit and the interest payments associated with it continue to be financed at 13.5 per cent, by mid-year 1998 the government of the day will be faced by a further financing requirement of $20 billion. This will be just to pay the interest on the debt associated with the original deficit. If government bonds yielded 16 per cent the deferral period would drop to about 12 years. At 20 per cent, a rate predicted for the not too distant future by some observers, the deferral period drops to less than nine years.

The relationship between interest rates and deferral can be most clearly seen in the case where interest rates are 100 per cent. If interest rates were 100 per cent, the interest charge on the deficit would equal the deficit in one year. Therefore, the deferral period would be eliminated and the relationship between expenditures and taxpayer liability would be painfully obvious.



Tax deferral and the public debt

The consequences of tax deferral for the size of the public debt are truly staggering. If the current deficit of $20 billion is financed in the way described at 13.5 per cent, for example, the public debt will be augmented by $151 billion by the time the deferral runs out in 1998. This increase in the nation's debt will be for the present year's deficit alone.

Lest the reader think these calculations a touch academic, it is important to note that these factors are responsible for the dramatic increase in the fraction of total government spending devoted to interest payments. In 1982-83 it is anticipated that $17.7 billion will be spent to pay the interest on outstanding government debt. This represents an astounding 25¢ of each dollar of government revenue.

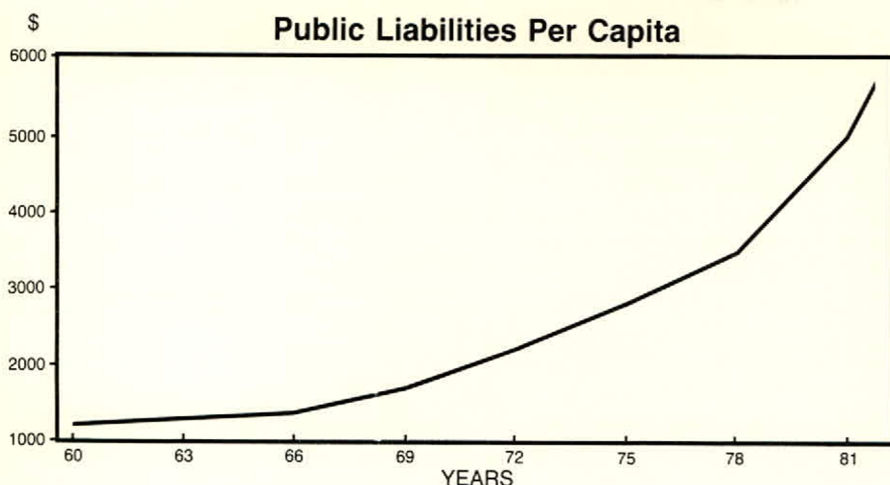
The budgetary squeeze

There are dire consequences of this which are too often ignored. One is the pressure which it imposes on the budgetary framework itself. Rising population and expectation levels place tremendous pressure on governments to deliver an ever-increasing quality and quantity of public services. And because of the political dimension of economic policy, governments very often respond to the pressures. But this capacity to respond is put under severe pressure from rising costs of past deferred taxes. Money which must be allocated in this year's budget to pay the interest charges on deferred taxes from previous years is not available to provide for programs and benefits during the current year. As the fraction of total revenue devoted to interest payments increases, it will squeeze out current benefits and

TABLE 1
THE TAX DEFERRAL PERIOD AT VARYING RATES OF INTEREST

Interest Rate Per Cent	Number of *Years* Into Future Deficit Is Deferred
5.	63
10.	24
13.5	16
16.	12
20.	9

This table is derived by calculating how long it would take for interest payments to equal the initial amount of a loan if all interest payments were financed by new loans.



programs. Or it will create even greater pressure for budgetary deficits of the sort that we have seen accumulating in the period since 1975.

In light of the foregoing, it is reasonable to view the question of government finance as a choice between taxes today and taxes in some future period (or more monetary creation today and still more monetary creation in the future). And, given the electorate's proclivity to regard taxes with a jaundiced eye, it is understandable that governments often find it attractive to postpone the day of reckoning. This is particularly true as long as interest rates permit deferral of taxes well beyond the natural life of a government.

What are the tax consequences of deferral in the present circumstances? That is, how would existing taxes be affected if 22 per cent of the cost of current expenditures (i.e., the current deficit) was not deferred? Assuming that all tax increases would be borne by residents, the federal tax bill of the average Canadian would have to increase by an appalling 31.98 per cent!

Deferred taxes are hidden taxes

From the point of view of the average taxpayer, such deficit "financing" amounts to hidden taxation. This is because the tax liability which is deferred is not immediately obvious to most of the electorate — even after some serious deliberation. The result is that the average taxpayer's perception of the cost of government is distorted. The perceived cost is much lower than the actual. It is precisely for this reason that governments often prefer to defer the tax consequence of their programs. Moreover, much of the current deficit arises from explicit tax reductions which were undertaken during the 1972-1978 period. Estimates provided in the December 1979 Budget of the Government of Canada are instructive. They suggest that tax reductions implemented during that past period served to reduce federal government revenues by $16.390 billion.

In other words, for the past decade the federal government has engaged —whether consciously or not — in a program of converting the actual tax cost of its program into deferred taxes in the form of deficits. As expenditure programs have increased in cost and become more numerous, the current tax burden per unit of government services faced by taxpayers has fallen. However attractive it may be for present governments to defer the tax consequences of their spending decisions, there are several structural consequences of this action which bear careful consideration.

Problems with tax deferral

The most fundamental of these relates to the problem of public choice. We have all heard it said that the growth of government is an expression of the public will, that people want more government services, and government is merely an instrument of the people. (Strictly speaking of course, no one can express economic demand who is unwilling to pay the market price for a good or service.) But how much confidence can we have that the present system will increase consumer welfare if choices are being made in the context of artificially depressed prices for government services?

The above calculations suggest that in 1982-83 alone the tax cost of federal government programs will be only two-thirds of the actual cost — the remainder hidden by being deferred. Can we reasonably expect today's average voter to know the extent to which current services will have to be paid for in the future? Is it not likely that people would demand less government services now, if they knew the true cost?

The suspicion must be that the increasing resort to tax deferral is a tacit recognition by government that Canadians would not willingly support existing government expenditures, if they had to bear the true current cost of the programs.

Deficits conceal the true cost of government

A second structural consequence of tax deferral is the effect it has on the public-private sector mix of activities. In most cases, the complete cost of conducting activities in the private sector is included in the price of the activity. As we have seen, this is often not the case for publicly provided services. To the extent this is true, people's choices as to whether an activity should be conducted in the public sector or private sector will be biased toward the public sector.

It should also be recognized that different members of the electorate will have different attitudes toward the cost of programs financed by borrowing — even if they perceive the true costs. The young will live to pay more of the total cost of tax deferral than the old. The latter, therefore, have a bias

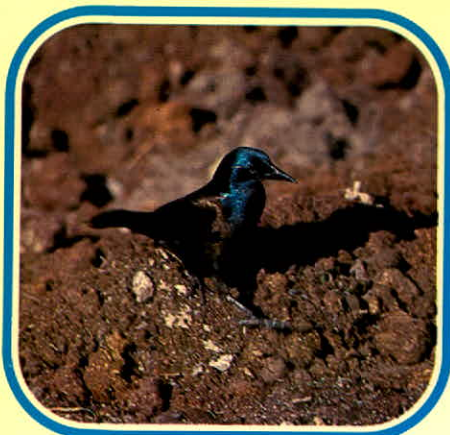
toward demanding more public services to the extent that the tax costs are deferred. This observation is of critical importance currently as we consider as a nation the appropriate role of the federal government in the provision of retirement benefits — especially in view of the aging of our population and, consequently, of the electorate which will make the choices.

What then should be done?

It is the considered opinion of a growing number of economists, that the only solution to the problems posed by budgetary imbalance is more direct commitment to expenditure reduction in the public sector and a more serious attempt to achieve budget balance. Unfortunately, the recent trilogy of chats by the Prime Minister did not provide much indication that serious expenditure reduction is in prospect. Mr. Trudeau specifically rejected reducing expenditures on social programs. But these account for nearly half of total spending. The Prime Minister in particular ruled out the possibility of ending the universality of unemployment insurance, old age pensions and the child allowance in spite of the fact that these expenditures not only reduce the competition for employees, but also subsidize unemployment, and thus raise the cost of living.

What is needed is an end to destabilizing monetary and fiscal policy, a competitive market place in jobs, and wage rates which are free to rise or fall with changing economic conditions. This would tend to ensure that all may be employed, and to direct employment into its most valuable alternative. Under such a regime, the able-bodied person would be able to take the most productive employment available. Present benefits for the able-bodied could then be phased out. The inevitable result would be more employment, higher production, lower prices and a balanced budget.

This special analysis by Michael A. Walker and Walter Block of The Fraser Institute was specially commissioned by United Grain Growers.



COMMON GRACKLE

BROWN-HEADED COWBIRD

COMMON FLICKER

RUFOUS-SIDED TOWHEE

COMMON NIGHTHAWK

WESTERN KINGBIRD

AMERICAN ROBIN

BOBOLINK

SAVANNAH SPARROW

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CHIPPING SPARROW

WILLIAM. I. CAMPBELL
BELTED KINGFISHER

MARJORIE F. CREWE
ROSE-BREASTED GROSBEAK

EDGAR N. DANDRIDGE
RUFOUS-SIDED TOWHEE

DOUG GILROY
WESTERN KINGBIRD
BARN SWALLOW
YELLOW-HEADED BLACKBIRD
HORNED LARK
TREE SWALLOW
CLAY-COLORED SPARROW
VESPER SPARROW
SONG SPARROW
MOURNING DOVE
CEDAR WAXWING
EASTERN KINGBIRD
COMMON NIGHTHAWK
WESTERN MEADOWLARK
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DR. CYRIL HAMPSON
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VEERY

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AMERICAN ROBIN
COMMON FLICKER
PURPLE MARTIN
SAVANNAH SPARROW
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RED-WINGED BLACKBIRD
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