The Rise and Fall of Canadian Wheat Board

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by
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INTRODUCTION[i]

The Canadian Wheat Board was a product of the circumstances and events that shaped the grain sector of Western Canada. In the early decades of settlement of the Prairie region neither producers nor governments advocated a central selling agency for marketing grain produced in the New West, nor for any other commodity. Laissez faire, personal freedoms and open markets were the order of the new frontier.

The pioneers did lobby governments to provide assistance in developing the basic infrastructure to enable them to produce and market grain, particularly access to rail, country and terminal elevators and foreign markets. They also pursued and gained a rules framework for the grain trade to provide legal, equitable and orderly access to markets. But it was regulatory and financial assistance that producers demanded and not direct intervention in the production and marketing of farm products. Likewise governments, federal and provincial, worked to create rail infrastructure and an economic framework to stimulate settlement, agricultural production, trade and commerce. The emphasis was on facilitating farm and private sector activity rather than direct government intervention.

The Federal government did provide significant financial assistance to open the prairie region for settlement and trade, active immigration and rail construction programs with subsidies, land grants and Ministerial leadership. In return settlers were required to break the sod for cultivation, and railways agreed to the regulation of rates. While grain regulation preceded Western settlement and the first federal grain inspection act was passed in 1874 (C. Wilson 1978), these early regulations were consolidated in the Canada Grain Act of 1912. This Act represented the first principle step in regulating the industry under a Board of Grain Supervisors. It responded to over a decade of producer grievances and protests, and amendments to earlier regulations with respect to grading, weighing, handling and transporting grain. Producers also pressed the Federal government for grain terminals and the construction and ownership of country elevators but with only limited response. Private (line) elevator companies and eventually farm cooperative organizations developed the elevator system largely on their own. The Federal government did accept the leadership role in agricultural research by establishing the Dominion Experimental Farm Stations Act, 1886. The result was a healthy, expanding grain sector on the Canadian prairies by 1914.

Two World Wars and an intervening market crash followed by a severe depression forced successive Governments to directly intervene in grain marketing and create a mechanism for this purpose – the Canadian Wheat Board (CWB). It operated initially on a voluntary basis and only in abnormal market circumstances since both Governments and most producers advocated free trade and individual choice. Grain exchanges existed in Canada and the United States (U.S.) providing for cash and futures trading, and farm organizations found alternative ways to market grain through "pooling" to share the risk and ensure an orderly flow to export points.[ii] There were international efforts to negotiate agreements to reduce trade barriers and coordinate grain policies to balance supply with demand and achieve equitable pricing. But rising farm productivity, driven by mechanization, new grain varieties and suitable farming methods, combined with policies of self-sufficiency and border control, led to persistent over-supply of wheat and marketing problems. Poverty and hunger existed in many developing countries and occasional food scarcity issues complicated the search for international solutions. Trade and commodity agreements provided limited relief and gradually most governments, excepting in state-controlled economies, retreated from directly intervening in grain marketing. This is the story of the rise and fall of the CWB as the industry and the world around it evolved and changed.

FIRST WORLD WAR

The outbreak of the Great War in 1914 quickly altered the laissez-faire approach of governments in Canada, the United States, Australia and Britain, the latter being Canada's major market for wheat. It also fed the emerging pressures from Western Canadian farm organizations for greater government involvement in grain handling and marketing. Canada and Australia were still in semi-colonial status. Britain established wartime control over the movement of wheat coming from the former colonies as they retained foreign affairs responsibilities for the Commonwealth. The Canadian West had surplus wheat supplies but was prevented from offering them freely under wartime control, and sales were being lost to U.S. and other exporters. As Britain began direct government purchasing from Canada and Australia, and urged their former colonies to create boards with powers to fix prices and distribution, the Canadian government turned to the Board of Grain Supervisors to set prices and regulate trade. Britain backed away from a commitment to take all of Canada's surplus grain, so the Board's powers were broadened to create a marketing board (C. Wilson 1978). This set the stage for the creation of the Canadian Wheat Board although it was not the Conservative Government's intention to establish a permanent institution. The Winnipeg Grain Exchange (WGE) had terminated futures trading under wartime restrictions but the private trade, governments, and farm organizations expected to return to business as normal following the War.

The circumstances of wartime control of grain distribution and food supplies also planted the seeds for international cooperation in grain marketing. Towards the end of the War, the allies, Britain, France, Italy and the U.S., agreed in 1918 to coordinate food policy and procurement. This continued in the intermediate post-war period as part of the allies supply and relief activities under the Peace Settlement. The U.S. formed a corporation with Government direction to handle surplus wheat. The first wheat board in Canada was established in 1919 under the War Measures Act. Although futures trading had been resumed in both countries, uncertainty over de-control in Europe, the need for credit, and market instability, forced the closure of futures trading. It is interesting the WGE asked the Canadian Government to take control of wheat marketing to "rescue" the futures market in those circumstances. As in the organization of the Board of Grain Supervisors, the members of the CWB were appointed from the grain industry and served on an honorary basis. The CWB of 1919 provided initial advances on grain deliveries, sales at the best price and distribution of final earnings through participation certificates. This followed similar arrangements set up in Australia and the U.S. during the War. Initial payments for wheat were also established for Ontario, Quebec and B.C. but government statements made it clear that the Board was a temporary arrangement and the marketing of wheat would be returned to the usual and normal methods of the pre-War period (C. Wilson 1978).

The 1919 legislation made provision for the Government to continue the Board by proclamation in emergencies. The Board's handling of the crop resulted in a final result above expectations and stimulated pressure from some farm organizations to continue its operations. This resulted in the Canadian Wheat Board Act of 1920 providing for its resumption by proclamation. Futures trading for the 1920 crop had resumed in Chicago and open marketing returned in July to Canada as well.

THE FOLLOWING DECADE

Although the early 1920s was a period of general economic prosperity and favorable harvests in Western Canada, wheat prices steadily declined after a brief rally from sales of high quality wheat to U.S. millers. This stimulated strong representations from producer organizations for reinstatement of voluntary Board marketing. A major public debate ensued over the merits or otherwise of the central marketing of grain. It coincided with an election in 1921 and a minority Liberal administration replaced the Conservatives. The policy of the new government on the methods of marketing grain was similar to that of the outgoing administration, both opposed to direct involvement of the market except in unusual circumstances.

On a global basis there was also a major debate over direct government involvement in economies, contrasting the socialist or communist policies with an open market, laissez-faire, entrepreneurial system. But a new National Progressive Party, spearheaded by Western farm organizations, had achieved a significant standing in the Canadian Parliament, and demanded tariff reductions to lower import costs and the re-establishment of the CWB on a voluntary basis. In addition, there was also the question of whether the compulsory control of grain marketing was constitutional. Legal experts considered Federal powers could not deny freedom of contract and the capacity to buy and sell, or exercise proprietary rights, but could regulate conditions of export and foreign relations (C. Wilson 1978).

By the early 1920s producers had created their own cooperative elevator system to compete with the private line companies. The Progressives had failed to achieve neither their tariff reduction goals nor a continuation of a wheat board. Due to promises in the election campaign the new Administration had undertaken to adopt legislation permitting the re-establishment of a wheat board and did so in the CWB Act 1922. It would take effect only if two of the three Prairie Provinces passed concurring legislation, and it would operate for one crop only on a voluntary basis. Alberta and Saskatchewan adopted concurrent legislation but Manitoba failed to do so. Consequently credible leadership for a renewed board could not be attracted and it was not implemented. The 1922 Act did not include provisions relating to grain handling as had been exercised by the Board in relation to wartime operations. There had been persistent complaints over the buying, selling and transportation of grain which were referred to a Royal Commission headed by Judge Turgeon. The Commission examined pricing, elevator charges, grain mixing and cleaning, and made several regulatory recommendations. It also investigated the WGE and concluded that the futures market benefitted producers. However, the issue of futures trading, and related speculation on grain, persisted throughout the history of the CWB. Another issue raised by the Commission was the constitutionality of the Canada Grain Act. This was eventually resolved by declaring grain elevators as works for the general advantage of Canada and hence related regulations were regarded as constitutional.

Producer organizations also complained that the pressures on prices of the surge of grain into the system at harvest time, and the need to move sufficient quantity to export positions before freeze-up, worked to their economic disadvantage. They pressed for an orderly marketing system which a board would provide. As this failed to be implemented, the farmer cooperatives were attracted to a system of pooling of grain. They claimed it would allow orderly movement to meet sales, raise prices, and avoid the need to use the futures market to manage the risk of holding grain in the system. Pooling had been practiced in Australia and in the U.S. by some farm groups. Three Prairie Provincial Pools were incorporated providing for initial payments financed through the banking system. A Central Selling Agency (CSA) was established jointly by the Pools which made direct sales and used the futures market to assist in risk management. Pooling grain delivered to the cooperative elevators was voluntary and one producer elevator organization (United Grain Growers) operated separately to continue serving non-pool customers. These farm organizations competed with line elevator companies for domestic and export business. They offered pooling for wheat, coarse (feed) grains and other crops.

The experience among the allies in coordinating grain distribution in the Great War stimulated an interest in continuing exporter cooperation in the 1920s. Early in the decade there were informal exchanges among Canadian, Australian and U.S. officials to promote an inter-governmental conference of wheat exporting countries aimed at maintaining an orderly market and fair prices for producers (C. Wilson 1978). Two International Wheat Pool Conferences took place in the mid-20s with participation by three Canadian pools, four Australian and ten U.S. with observers from the Soviet Union. Two directors of the Canadian Central Selling Agency are quoted as indicating that the purpose was to raise the price of wheat which caused a critical reaction by overseas buyers (Fairbairn 1984). However, the improving productivity at farm level and the success of the pools and line companies in establishing infrastructure for handling and transportation of grain in a functioning competitive market, reduced farm pressure for government intervention.

There was a record harvest in Western Canada in 1928 but adverse weather reduced its quality, adding to an over-supplied world market. In the post-War period there had been strong efforts in importing countries toward achieving self-sufficiency. When combined with mechanization and improved farming methods generally, excess production in relation to demand followed and prices declined. The market crash in 1929 and high tariffs and import restrictions imposed by most countries further depressed markets. A short crop in Western Canada in 1929 caused a price run-up. The Pool cooperatives had operated without financial backing from governments but the situation had quickly changed and they were forced to turn to provincial governments for assistance. Some brokerages went bankrupt as prices fell and futures positions were liquidated. Grain companies, including the cooperatives, experienced serious losses.

MARKET CRASH AND DEPRESSION

A Conservative Government under R.B. Bennett took power in 1930 on the eve of the Great Depression with wheat prices again collapsing. The Western Pools, marketing through the CSA, were facing bankruptcy and bank financing of their pooling operations could not be obtained without a government guarantee. Canadian wheat exports were more heavily hit than those of competitors as sales were affected by European resistance to the Pool's method of direct selling and their attempts to raise prices by holding supplies and occasionally using the futures market. As prices dropped below initial payments, and the pools came under pressure of forced liquidations, Bennett reluctantly agreed to provisional bank guarantees as the crisis was now a national emergency. The CSA was placed under new management to direct sales led by J. McFarland, an experienced grain trader who had managed the Government market interventions in the early 1920s. In successive crop years an attempt was made to use the futures market in a program of sales and price support. Each cooperative elevator company operated separately, competing with the line companies, in handling prairie grain. The Government used the CSA as a mechanism to dispose of the 1930 carryover grain and to conduct its support operations using the futures market. Like the line companies, the cooperatives also traded in futures as an instrument of market support, contrary to their original opposition to speculation and their emphasis on orderly marketing. This became extremely controversial in the farm community to the point that a Royal Commission was struck to examine the effect of the futures market on grain prices. The Commission, under Sir Joseph Stamp (a Director of the Bank of England) found that the prices received over time were increased appreciably from the use of futures trading, but in times of market stress there was no significant net effect. This issue remained controversial as some producers continued to advocate for a compulsory pooling arrangement. Nonetheless, the Government provided limited financial assistance through its use of the futures market. In addition, in recognition of the serious decline in farm income, it also distributed a modest subsidy of $0.05 per bushel on all wheat delivered in the 1931/32 crop year (C. Wilson 1978).

Following election promises, Bennett proposed a system of reciprocal empire trade preferences at Imperial Conferences held in 1930 and 1932. On the edge of the conference he also pursued an international solution to the wheat marketing issue. Specifically he advocated preferred access to the British market for wheat and flour. The pool cooperatives did not support tariff preferences or quota arrangements. They argued that if agreements were negotiated to promote trade within the Commonwealth there should also be a world economic conference to reduce trade barriers and promote greater cooperation among trading nations. The result was a preferential tariff in Britain for wheat and flour and a monetary and economic conference that was convened in 1933 under the League of Nations. On the edge of this conference, under Bennett's chairmanship, the first International Wheat Agreement (IWA) was concluded. It was aimed at restoring order to the world wheat market by bringing production into balance with demand through coordinating policies using export quotas. The Agreement included a general provision that importing countries would not take advantage of a voluntary reduction in exports by exporting countries aimed at restoring the price of wheat to a remunerative level.

There was international consensus that the marketing problem was caused by world economic depression and over-production of wheat – a supply problem that persisted for most of the century. Subsequent negotiations on how to limit production were difficult among exporters and complicated by an Argentinean demand for increased quota. East European exporters also pursued preferential access to West European markets and reached an arrangement with France. Subsequent negotiations over French exports of wheat and flour focused on minimum prices to apply to all participants. Bennett opposed price-fixing, and Western Canadian farm representatives objected to export quotas, as did Australia. The U.S did implement a program to lower production but subsequent negotiations failed. North American crops were severely depressed by drought, disease and grasshoppers. The over-supply issue was eased as the U.S. briefly became a net importer and natural factors reduced output. The first IWA was not successful but governments returned to the negotiating table following World War II.

In Canada the operation of the CSA to support the market through purchasing futures options had reached a holding of 152 million bushels at May 31, 1935. This burden, and the failure of traders to cooperate with the Government in reducing carryover, and seeking profit by short selling while criticizing the support program, led Bennett to consider a monopoly board. An investigation was also launched over WCE trading and a bill was introduced in 1935 to form a compulsory grain board. This was opposed by some farm groups, the WCE and other commercial organizations. The Liberal Opposition also objected to a compulsory board. The CWB Act, 1935 applied only to wheat, guaranteed initial payments, and was voluntary. Coarse grains coverage could take effect by proclamation. The new Board consisted of McFarland as Chief Commissioner, an Assistant Chief Commissioner and a third Commissioner, all appointed by the Government. An advisory committee, serving on an honorary basis was drawn from the Pools and UGG representing the producers and the trade (mills, elevator companies and exporters). The WCE appointed a market supervisor of exchange trading. Although Bennett had opposed a guarantee of initial payments due to the market effect and Treasury exposure, the CWB Act represented a further step in the Prime Minister's effort to stabilize and solve the marketing problem for wheat. Subsequently the carryover from the CSA pools and following crops was disposed of in an orderly manner and some support was given to distressed Prairie farmers. It was estimated that the support activity benefitted producers by an estimated $150 million (C. Wilson 1978).

In addition to the CWB Act, the Conservative Government adopted the Natural Products Marketing Act, 1934 enabling marketing of a commodity through emergency whenever two-thirds of producers voted in favor (Fairbairn 1984). The Bennett Government was also responsible for the Bank of Canada Act, 1934. But in the following year the Conservatives lost the election in a Liberal landslide under McKenzie King.

The wheat policies of the King Government included orderly liquidation of the wheat surplus and retaining the CWB for the crisis period only. The marketing of grain would be returned to the status prior to the election under the private trade and the pool cooperatives. The new Government pursued open trade and was determined to avoid direct intervention in any sector, or policies that might encourage state socialism. The CWB would be continued only until the grain surplus was liquidated without depressing markets. The new Government opposed the restrictions of a wheat agreement so producers would be free to plan and deliver as they wished. The Board was instructed to pursue orderly sales, using the usual channels of trade.

Following the U.S. drought and their need to import, prices of wheat rose. The Board sold heavily which also helped the trade, many of which held short positions in the market. The Conservatives, and the rising CCF (Co-operative Commonwealth Federation) party, accused the Liberals of favouring the trade and "rescuing" the WCE. A major public controversy ensued over the methods of marketing grain which resulted in another Royal Commission.

The Inquiry, under Judge Turgeon examined futures trading, the role of speculation, operation of the wheat pools, their financial difficulties, and the previous Government's price stabilization actions. On the key issue of the futures market, Turgeon found in favor of continuing the open market system. He considered that speculators bear their own costs, and on average lose. Their losses accrue to the market and are passed back to producers or forward to consumers as a result of competition among traders. Turgeon concluded that the wheat pooling system relieved its participants of risks by returning a uniform price each year, usually a fair price, and provided a service at cost. However he also found that direct selling had been injurious to traders and the marketing of wheat, and alarmed importing countries due to public statements of raising prices, thus becoming detrimental to Canada's market interest. He considered that the Government's stabilization operations had been harmful to the sale of Canadian wheat, and other forms of intervention should be used if needed in the future. He also found that overseas buyers, as well as the trade, used the futures market to manage risk in their operations and access to it should be continued. Finally, Turgeon was opposed to the creation of a compulsory wheat board. This comprehensive and carefully considered report endorsed the policy of both Conservative and Liberal Governments to avoid direct intervention in grain markets except in crisis situations. The CWB had managed to market the grain carryover and the Liberal Government was determined to suspend Board operations. However in 1937 Western Canada experienced its worst drought and Turgeon suggested that the Board be maintained if necessary in those circumstances.

The Government decided to maintain Board operations for the 1938-39 crop year. The initial price was slightly below early August levels and eventually the Board realized a loss that was covered by the Treasury. A further challenge arose as the U.S. was again in a wheat surplus position and considering export sales at a loss though the operation of the Federal Surplus Commodities Corporation.[iii] They requested consultations with Canada and argued the Canadian system amounted to an export subsidy. The outcome was a decision on both sides to sell on export at competitive market prices. This was a precursor to an ongoing dialogue between the two governments that intensified in the years to come. In a related matter, U.S. authorities began to press for a new international wheat agreement to combat surplus production and maintain reasonable prices. In 1938 there were also negotiations between the U.S., Britain and Canada to lower tariffs which had been elevated at the onset of the depression. Trade agreements were signed in November which terminated the Empire wheat preference.

The Liberal Government's policies for grain marketing were further complicated by East-West differences over farm support. Western wheat producers had benefitted from an initial payment, which did not apply to Ontario wheat. This was argued before the Royal Commission on Dominion-Provincial Relations and the Federal Government addressed their complaint. It had already been decided to adopt a Prairie Farm Assistance Act, 1939 to provide for acreage payments to Western grain producers affected by crop failure or a national emergency. This compensated for the failure of guaranteed initial payments to help producers with nothing to market. In addition, the cooperative grain companies were encouraged to offer pooling facilities again. To respond to the Eastern complaint, an Agricultural Products Cooperative Marketing Act, 1939 was legislated to provide a similar arrangement for all agricultural products other than wheat (Hedley 2014). This enabled producer cooperatives and line elevator companies to set initial payments in relation to a government guarantee.

The aggressive legislative program reflected the overall policy of the Liberal administration to provide modest and equitable support for producers marketing agricultural products. It was intended to encourage arrangements that would allow the Government to avoid direct intervention in agricultural commodity markets while keeping Treasury exposure at acceptable levels. It also reflected the Government's determination to suspend the operations of the CWB in normal circumstances but once again a major war was about to upset their plans and alter the course of CWB history.

THE SECOND WORLD WAR AND A MONOPOLY BOARD

Well before war was declared in September 1939, the British Government had developed its food control plans and informed Canada of their approach. It included closing the Liverpool grain futures market and purchasing directly from Commonwealth sources as had been done in the previous war. This conflicted directly with the policy of keeping the Canadian market open and suspending Board operations. The U.S. had instigated a series of international meetings in 1938-1939 to revive the IWA which the Canadian Government had resisted. Their attitude was due to the opposition of Western producers to export quotas and production controls, and the Government's rejection of price fixing. However, Australia and Argentina had joined the negotiations as did Canada reluctantly, and basic quota proposals were on the table when the War broke out. Against this background the British pressed the Canadian Government to close the Exchange and deal direct on a government to government basis. Wheat prices were depressed, European markets were closing off, and intervention would have frozen low prices and harmed producer incomes. Britain began purchases on the WGE but backed off, regarding Canadian prices as not competitive. Following consultations over bulk contracts, the British resumed occasional purchases but war developments forced Canada's hand as wheat carryover rose. After introducing delivery quotas to control elevator and storage congestion, a wheat acreage reduction program was implemented in 1941.

The British had approached the Americans for support to consider commodity surplus problems and a series of meetings took place including representatives from Canada, Australia and Argentina. These covered proposals for an international wheat pool, export quotas, reserve stocks, reducing high cost production and tariffs, and minimum and maximum prices. After extensive negotiations, a Memorandum of Agreement was approved by the five governments in June 1942. They agreed to a draft Wheat Convention to be proposed to an international wheat conference after the war aimed at a solution to the wheat problem. The measures covered in the draft included relief wheat distribution, undertakings to regulate production during the war to prevent excessive stock accumulation, reserve stocks and export quota provisions. It provided for bulk purchases by the U.K. during the war at negotiated prices, and maintenance of prices in the post-war period to avoid a market collapse. The export quotas were to remain within one percent of the shares negotiated among the participants, i.e., Australia 19, Argentina 25, Canada 40 and the U.S. 15 percent of the total exports of the four countries. The stance taken by Canada in these preparatory negotiations was closely related to the Government's position on the CWB. Indeed the lead negotiator was G. McIvor, now Chief Commissioner of the Board.

At the outset of the hostilities a wartime prices and trade board was established in Canada to monitor price increases. As signs of serious inflation were evident by mid-1941, the Government imposed general price controls, including food. The position of the farmers was recognized as different from other sectors given that each was an individualist and manager of the operation, so it was necessary to establish different criteria to apply minimum and maximum prices for farm products. A ceiling was to be imposed for agricultural prices but income would be supported as necessary. Although prices had risen for most agricultural products, wheat prices were depressed. Consequently supplementary payments were made on an acreage basis. The CWB established maximum prices for grain, acting as administrator of the program, and managed a processing levy. Feed freight assistance was introduced to encourage production of pork and dairy products in Eastern Canada and B.C. for export to Britain. To an extent, initial payments were increased as income support, while acreage payments were made to compensate for actions to avoid excessive build-up of stocks. The wartime responsibilities of the CWB were extensive during the early 1940s as it was the administrator for maximum and minimum prices for several grains and responsible for bulk selling of wheat futures for sales to Britain and the U.S. The Government was also under pressure from farm organizations and associations regarding the treatment of agriculture, particularly grain. There were strong protests from prairie grain growers and the trade over levels at which wheat prices had been frozen and limitations on acreages and marketings. There were demands for parity prices for agriculture products and for wage levels, crop insurance, higher grain prices for domestic processing and closure of the futures market for a compulsory wheat board.

In addition to Western Canada grievances, there was pressure from the U.S. in response to rising wartime demand for feed grain and wheat, as well as mediocre harvests in 1943, to arrange bulk purchasing of feed grain, and from Britain for wheat. The allies tried to coordinate wartime production and shipments, including mutual aid, all of which placed unusual pressures on Exchange trading. The threat of inflation, and the need for the Board to act as both buyer and seller of Western wheat, as well as administering the wartime prices and trade board programs, left the Government little option than to create a compulsory board.

Finally, in September 1943, the closing of the Winnipeg Grain Exchange was announced for a period of two years, and the CWB became the single-desk seller of Western Canadian wheat. The Board was granted powers to acquire all unsold wheat in commercial position for Treasury account. This included carryover from 1940-42 accounts and the closure of all futures contracts. The Government regarded this as a temporary but necessary action in which a compulsory CWB was used as an instrument of national wartime policy.

Thus a monopoly wheat board evolved from a series of steps taken by successive governments to respond to production and marketing developments and unusual events, which forced them to take action against their beliefs and policies. Contrary to their view in 1935 that the Board should remain voluntary, the Western cooperatives, supported by leading farm organizations, viewed the compulsory board as an essential step in achieving orderly marketing of grain and complementary international arrangements. The line elevator companies, the WCE and most commercial organizations regarded these actions as a necessary response in abnormal circumstances, but if retained, a backward step in developing a dynamic, expanding and competitive grain industry in Western Canada. Further, it was not solely Canadian pressures that led to this result as the policies of Britain, the US and other exporters played a significant role in the decision to give the CWB monopoly powers.

THE POST-WAR PERIOD

In the immediate post-war period the focus of the re-elected Liberal government was the need to ease the transition to normal commercial operations from the emergency measures imposed during the conflict. In the case of grains, rather than the possible collapse of grain markets that followed the Great War, wheat prices rose in response to strong import demand and a reduced 1945 world crop.

Wheat production in European countries had fallen, and the allies combined food board was challenged to allocate export supplies to meet the urgent needs of liberated countries. Since Canada had been the principal supplier of wheat to Britain, the CWB was granted priority for shipments to that market. Grain reserves in Canada and the U.S. were drawn down and the government lifted delivery restrictions in the country. Although the overriding concern before and during the war had been over-production, the opposite situation briefly prevailed. The Memorandum of Agreement signed in 1942, designed to maintain reasonable prices to avoid post war market disruption, remained in effect in these changed circumstances. There had been price negotiations under the agreement in the interval, seeking commitments to maintain stability for shipments to the key U.K. market, which had failed. As the British notified their intention to continue direct food import purchasing in the transition period after the war, and the CWB was operating under the government's direction on export pricing, it was necessary to maintain the Board's monopoly status.

Despite the Liberal government policy to return to an open market system under normal circumstances, several developments prevented them from doing so. A range of food contracts negotiated with Britain during the war was under renegotiation and a long term wheat contract was also explored. James Gardiner, Minister of Agriculture and member of the Government's Ministerial Wheat Committee, reached a tentative four-year agreement with the British. This proved highly contentious. The CWB, Western cooperatives, and commercial organizations had serious reservations over committing a large share of wheat exports with specified prices in an uncertain market environment. It cut across the plan to negotiate an IWA, greatly complicated consultations between U.S. and Canada with Britain over loan agreements, and left limited flexibility to offer wheat to other traditional importers. It also fixed prices for two years at preferential levels for war-torn Britain although Western producers had already made concessions under controls during the war. The prices under the contract for the last two years were to be negotiated having regard to world prices, which was of limited benefit and publically criticized. But it meant that the CWB monopoly powers were extended for five more years using the Government's Emergency Transitional Powers Act to avoid any constitutional challenge.

The long term contract was intended to provide market stability after the war and Gardiner then pursued a five year pool under the CWB, to assure supplies. This was established by Order-in-Council using the same Act and covering the 1945-50 crops. Although these arrangements were widely criticized in Canada and in importing countries, it contributed to growing pressures, led by the U.S., to negotiate an effective international wheat agreement. It also firmly grounded a compulsory wheat board for five more years covering the designated area of Western Canada.

A further development in reinforcing the continuation of the monopoly board was the resumption and eventual conclusion of the International Wheat Agreement in 1949. Following the 1942 Memorandum agreed between wheat exporters and Britain, price discussions had continued without success. An international conference, convened under U.N. and F.A.O. auspices in 1947, focused on a multilateral contract among exporters and importers with minimum and maximum prices and guaranteed quantities. It required exporting countries to offer wheat up to the limit of negotiated quantities at the maximum price, and importers to purchase up to the limit of their guaranteed quantity if offered at the minimum. The 1947 conference failed mainly on price differences but a successor conference held in 1949 succeeded. To implement the obligations of the IWA the Government extended the Board's monopoly mandate to 1953. It also negotiated with the British to settle the "have regard to" clause in an attempt to increase payments for the final two years of the contract. In principle, the bilateral agreement was absorbed in the IWA, and Britain considered that it had met its obligations. Although relatively good prices had prevailed after the war, Western producers agitated for a further payment as partial compensation for accepting lower prices during and after the conflict. The Canadian Government in the end paid $65 million to be delivered through CWB pools, another example of the Government's use of the institution to implement a federal program. These successive extensions of the Board's mandate received strong support from most farm groups, particularly the Western cooperatives.

In addition to an IWA, the post-war period brought a series of international institutions onto the world scene, including the IMF, World Bank and the GATT, all of which would have some impact on the grain trade. It was also a period of extensive government intervention in economies for post-war rehabilitation, employment creation and the encouragement of greater self-sufficiency in essential materials, particularly food. The compulsory CWB fit well within these developments, as a significant share of global grain trade was under state control or direction. The changed circumstances brought several adjustments in government programs to help respond to severe shortages of grain stocks in Europe. Policies to limit production were reversed, particularly in the U.S., which introduced higher farm support programs. Production responded but Western Canada experienced drought and adverse harvesting conditions in the latter half of the decade. Under relentless pressure from major farm organizations led by the cooperatives, and Eastern concerns over supplies of feed grain, the Liberal Cabinet reluctantly decided to bring oats and barley under monopoly control subject to provincial concurrence. In addition to the continued support from Western co-operatives (apart from the United Grain Growers) to bring all grains under CWB control, eastern feeders were concerned over feed grain prices. The Board Act required it to operate primarily to benefit Western growers but Canadian Federation of Agriculture (CFA) members were confident that producers could agree on reasonable prices, an issue that re-emerged in the 1970s. Nonetheless there was considerable opposition to placing feed grains under monopoly control as leading Liberals (Crerar and Lambert) opposed the action as contrary to free enterprise philosophy (C. Wilson 1978). Following extensive debate in Parliament, a Government motion was adopted empowering the Governor-in-Council by regulation to extend Board monopoly control to oats and barley. The Premier of Manitoba also questioned the decision as it required concurrent provincial support but the Western provinces adopted supporting legislation. In this case, the Board used the futures market for price discovery and sales which were primarily for domestic consumption.

Additional amendments to the CWB Act were made at the same time to transfer certain Board powers from the Emergency Powers Act over grain deliveries to elevators and to railways. These powers had been exercised by the Board during the war to implement government policies particularly with respect to the U.K. contracts, and were considered to be necessary for the monopoly Board's operations. A new Part to the Act authorized the Board to regulate deliveries to elevators and railways, giving the monopoly a dominant influence over the handling and transport of Western grain. This would become increasingly contentious as rising volumes of non-Board grains and oilseeds competed for space in the system.

The post-war period extending into the 1950s also demonstrated a longer term trend that would have a significant impact on marketing and the CWB itself. The war stimulated a wave of technological advances that led to much higher productivity in farming, more crop diversification and improvements in food processing. The use of chemical fertilizers and pesticides, with new crop varieties and more efficient machinery and equipment, boosted yields and total output. When combined with higher support prices in the U.S., surplus carryover emerged and American exports increased. In Western Europe, with higher internal grain prices and border protection, production recovered and grain exports rose. The Common Agriculture Policy (CAP) of the European Community eventually resulted in greatly expanding exports. The U.S. responded to its large surplus situation with legislation to support a broad program of export subsidies, foreign aid, concessional credit sales and even barter, to push grain exports to record levels. By the mid-1950s the Canadian wheat carryover had again become burdensome (C. Wilson 1978).

The IWA was renewed in 1953 after extremely difficult negotiations. Prices had been at the maximum and importers benefitted from guarantees but were reluctant to raise the price range to reflect the post war market. Eventually a higher price range was agreed but Britain did not sign on. Following good harvests in Canada and elsewhere, surplus conditions prevailed and wheat prices fell. The U.S. expanded its surplus disposal programs and Canadian commercial sales declined. Difficult negotiations over extreme market disruptions took place bilaterally and under the IWA (with the CWB and U.S. Commodity Credit Corporation directly involved). Prices remained within the IWA range and the Agreement was renewed in 1956.

The initial response in Canada to the new crisis was a program of trade missions, credit sales, and bilateral trade agreements containing grain purchasing commitments. The CWB exports were central to these initiatives as treaties were negotiated with Japan, the USSR, and several East-European countries. In response to farm organization demands for parity pricing through a two-price wheat program, the Government, led by C.D. Howe, Minister of Trade and Commerce, introduced the Temporary Wheat Reserves Act in 1956. It reimbursed the Board and producers for costs in carrying commercial wheat stocks above a normal level. As grain backed up on farms, an act providing a partial guarantee for bank loans against farm-stored grain was adopted. In the following year a newly elected Conservative Government extended the Prairie Grains Advance Payments Act to farm stored grain as the depressed market situation persisted.

With ample supplies overhanging the world market, the IWA was renewed in 1959 without quota commitments. Argentina joined the Agreement and exporters collectively undertook to supply all of importing country commercial purchases within the price range. Importers agreed to purchase a percentage of their commercial requirements from export members when prices were below the maximum. The U.K. rejoined the Agreement, as did Sweden, Mexico, Spain and Italy as exporters. The IWA was continued in 1962 with a small increase in the price range. It was renewed again in 1965 and 1966 as negotiations for a comprehensive grains agreement took place as part of the GATT Kennedy Round of multilateral trade negotiations.

POLICY AND MARKET CHALLENGES

The agricultural policies pursued by most industrial countries were seriously disrupting the grain trade and creating mounting international tensions that continued through the 1960s and 70s. Aimed at improving food security and market stability, and providing a fair return to farmers, the farm support programs resulted in over supply and chaotic markets. Developing countries often discriminated against agriculture to raise state revenue, assure a stable supply of basic food at lower prices, and encourage economic development through import replacement. The two large command economies, the Soviet Union and China, maintained comprehensive state control, and the former exported grain in favorable harvest years. China on the other hand, faced food shortages after years of war with Japan and an internal revolution that brought a Communist regime to power in 1949.

By the mid-1950s there were indications that China would require food imports, and this prospect was pursued aggressively by the Canadian Trade Commissioner in Hong Kong, C.M.

Forsyth-Smith. Although Canada did not have diplomatic relations with the new Administration, he received permission to travel to Peking in 1957. The Chinese reciprocated by importing ten cargoes of wheat, using agents of the CWB, apparently to gain experience in dealing with North American companies. Neither Canada nor the U.S. recognized the new regime but the U.S. also maintained a full trade and treasury embargo on dealings with China. This meant that the business had to be conducted in other currencies, and handled by companies not affected by the trade and financial embargo.

The CWB also visited Peking in 1958. The Board had begun to sell directly to buyers, and to enter long term purchase and supply agreements. Subsequently, in 1961 the CWB negotiated two sales of wheat and barley followed by the first major long term wheat agreement with China. In response to a Chinese request for credit, Alvin Hamilton, Conservative Minister of Agriculture, obtained Cabinet approval to extend government credit for a share of the major contracts. An even larger three year agreement was negotiated by the CWB with the Soviet Union in 1963. These large volume sales executed directly by the CWB required much greater coordination of grain handling and transportation with deeper Board involvement throughout the supply chain. The Board also changed to non-transparent pricing with the shift toward direct marketing (Oleson 1999).

In the Kennedy Round GATT negotiations, exporting countries, led by the U.S., pursued a major reduction in tariffs and border protection. With respect to agriculture little progress was made primarily because the EEC refused to compromise the CAP. Consequently the exporters insisted on a renewal of the IWA with minimum prices more closely related to the costs of production in exporting countries. A Memorandum of Agreement was reached as part of the GATT settlement in 1967. It was incorporated into an international agreement at a world wheat conference later to take effect for the following crop year. It established a schedule of minimum and maximum prices for wheat exports from nine countries thus fixing price equivalents at the extremes of the range. Prices in previous agreements had been expressed for the top Canadian grade only, allowing competitors to widen or narrow spreads at both extremes to their benefit. Since the EEC had insisted on including coarse (feed) grains in the negotiations it became the International Grains Arrangement (IGA) in 1968 but only with obligations to consult for the additional grains. With wheat carryover already at high levels, and a large world crop in the following season, export prices were at minimum levels. Extreme price competition followed, and while the CWB attempted to hold to the guaranteed minimum, their share of the commercial market was falling and this could not be continued. By early 1969 there had been a significant deterioration in prices and Jean-Luc Pepin, Liberal Minister of Industry, Trade and Commerce announced in Parliament that the CWB must meet the competition (Hansard, March 14, 1969). The IGA failed as depressed markets prevailed into the early 1970s.

As grain backed up on Western farms and deliveries into the congested handling system were under tight quota control, the pressures on farm incomes were severe. Producers looked for alternative crops to wheat and other grains, and for various ways to market the surplus. For example, there was an urgent need to develop an oilseed to compete with soybeans in the edible oil and protein meal markets. The Federal Government established a special group on grains (Grains Group) in 1969 under Jean-Luc Pepin, to develop an integrated plan to deal with the surplus problem. The Group, led by Otto Lang, (Minister without Portfolio and later Minister of Transport) involved representation from key federal departments of Agriculture, Trade and Commerce, and Transport. It worked in close and regular contact with the CWB and other federal agencies, and was in consultation with farm organizations, grain companies including cooperatives, and railways to address immediate problems and longer term policies. The crisis was a catalyst for a shift in policy direction and CWB operations.

A short term program to reduce grain inventories was announced in early 1970 known as LIFT (Lower Inventories for Tomorrow). It resulted in reducing wheat acreage in the prairies by half in that year. Due primarily to non-compensatory fixed grain rates, the rail transportation system had deteriorated and the Government purchased 8,000 modern hopper cars for grain between 1972 and 1979. The CWB purchased 2,000 producer cars, and Western provinces added more. To coordinate farm deliveries and rail shipments to meet terminal sales, a block shipping system was implemented. The farm delivery quotas were altered to complement the shipping requirements and form a coordinated supply chain to ports. Active industry, university and federal research and corporate initiatives resulted in greater crop diversification, particularly rapeseed (canola) production. Farm organizations led by the cooperatives urged that the expanding crop be brought under compulsory CWB control which was opposed by other producer groups and the commercial trade. Following a close plebiscite among rapeseed producers, the crop remained under the open market, as further evidence of the continuing controversy over controlled or open market systems. The CWB also initiated a market review in 1970 which recommended a more integrated and systematic marketing structure involving all industry segments and government. The Government introduced a Two-Price Wheat System in 1967 to stabilize the domestic price of wheat to benefit producers in depressed markets and consumers in high price situations.

A series of global events turned grain markets around in early 1972. A protein shortage emerged, stimulated by a low fishmeal harvest, followed by a run on soybean meal volumes and prices which extended to higher protein grains including barley. As prices rose, the compulsory Board was required to assure sufficient domestic feed grain supplies, limiting barley exports. Eastern growers were able to continue to export but the Board exercised national border control for both imports and exports of wheat, barley and oats, creating a political dilemna. The Canadian Livestock Feed Board (CLFB), on behalf of eastern feeders, and the Canadian Wheat Board representing Western feed grain placed the Federal government at the centre of the problem. Following extensive consultations it was concluded that the domestic feed grain market should be open. The new policy was implemented in 1974 but required considerable regulation, and several modifications as the CWB, CLFB, and other government agencies involved in grain regulations were required to merge monopoly export control with an open domestic feed grain market.

The protein shortage caused the U.S. to place an embargo on soybeans and meal exports which shocked dependent importers, especially Japan. Canada instituted a strict monitoring system and required close consultation with the CWB on import and export controls for feed grains and products under their mandate. Eventually the administration of border control was transferred to the Department of Foreign Affairs and Trade with the obligation to consult with the CWB over its requirements. There was a surge in demand in the 1970-71 crop year responding to several developments, particularly major U.S. grain purchases by the Soviet Union. These were skillfully contracted with several large trading firms to take advantage of low, subsidized U.S. prices. The large, unexpected sales stimulated a world food crisis. In addition to the rapid rise in grain exports, several large developing countries, including India, experienced poor harvests. Urgent consultations were convened by FAO, and the U.N. initiated consultations over the possibility of organizing international grain reserves.

The U.S., with its idled cropland, intensive farming methods and market driven system, was able to respond rapidly to the new demand situation. There was also a strong production response in Canada, as elsewhere, but inventories were low following the LIFT program. There were significant shifts in consumption patterns as high feed grain prices discouraged use and some grain, such as corn, was diverted to food consumption. This experience clearly demonstrated the manner in which a relatively open market could adjust quickly to bring supply into balance with demand. In a few years, surplus conditions re-emerged.

The 1970's was a period of major adjustments in all levels of the grain industry in Canada and world-wide. Grain production increased strongly, particularly in the U.S. and EEC. Most of the expansion came from increased yields, encouraged by technical improvements and government support. Consumption also increased but more slowly than production. Wheat trade almost doubled from 1970-80 as did coarse grain trade. The most rapid growth in imports was in middle and higher income developing countries but also in the USSR and China. The production response in Canada to a higher world demand was significant but limited by adverse weather and inadequate rail transportation. The substantial but variable imports by the Soviets and Chinese changed the market dramatically but the ability of the U.S. and EEC to expand production of cereals and increase market share represented a more substantial shift. Their producers benefitted from market support, intensive farming methods and export subsidies.

There was also significant consolidation in the Canadian grain handling system and the extension of international firms into the business. Inland terminals, bulk handling facilities and ocean terminal expansion placed growing pressures on the transport system. The operations of the cooperatives and private firms were extended into rapeseed (canola) processing and exports. Stimulated by a council representing all levels of the sector, canola production, processing and product development was greatly expanded. Modern milling technology brought softer wheats into the grist, reducing the need for more expensive high protein spring wheat. As noted by a Marketing Review Committee appointed by the CWB in 1971, the concept of quality in wheat had changed materially as substitutes for Canadian hard spring wheat had taken a large part of many markets. International grain corporations extended their operations globally and in Canada in grains and oilseeds handling and processing.

The Western grain cooperatives were also facing political competition from newly organized farm groups seeking a more open and competitive grain marketing system. They advocated variable rail rates in return for better service and the ability to market their produce without restraint, including direct sales to domestic processors and U.S. customers. They supported government plans to rationalize the grain handling system to achieve faster, more cost-efficient movement.

The Grains Group under Otto Lang considered that many of these proposals were in line with longer term production and market trends. Past support programs were defensive in seeking to maintain market stability and control in the face of increasing crop and demand diversity, larger commercial farm operations and deepening global competition. The emphasis in research and marketing on high quality spring wheat and malting barley required broadening and intensifying to respond to growing demand for different types of wheat, oilseeds and special crops. In addition, rather than commodity specific price support, the Western Grain Stabilization Act implemented in 1975, provided direct income assistance for net returns from a basket of grains. A series of steps were taken to encourage canola and new crop production and processing, including funding varietal research, a pilot plant for product development, improved access to the handling system, applying the fixed rail rates to canola and products, and conducting a plebiscite to clarify the status of rapeseed marketing. To assess CWB operations, early advice on initial prices and quotas was implemented and anticipated final payments information was provided to help producers to orient their seeding plans to market indicators. The focus of many of these programs was designed to shift from a supply driven system to a market demand approach (pull vs. push systems).

Steps were also taken to encourage coordination among exporting countries. The IGA had failed in 1969 but the International Wheat Council continued in a monitoring and information role. A U.N. Conference in 1971 was unable to agree on a new accord based on price commitments. There was a consensus that managing the world market using agreed prices and related economic provisions was not negotiable. The same conclusion was reached with respect to most other international commodity agreements. This ended the attempts to manage wheat prices on a global basis. However, it was agreed to continue a Food Aid Convention providing four million tons of aid annually to developing country members. As part of the GATT "Tokyo" Round of multilateral trade negotiations, an attempt was made to negotiate an IWA using an international grain reserve and indicator prices as the mechanism to adjust domestic programs to stabilize world grain markets. A U.N. negotiating conference in 1978-79 failed to reach agreement due to differences over the price indicators, the size of a reserve stock, and developing country demands for a financial fund to assist them in acquiring and holding grain reserves. The IWA was extended again in a monitoring role but the Food Aid Convention was renegotiated with a higher level of aid. This was the last attempt by exporting and importing countries to reach agreement on economic provisions to stabilize world grain prices and markets. The exporters had worked closely during the negotiations, and at a Ministerial meeting of wheat exporting countries convened by Otto Lang in 1979, it was agreed to continue regular consultations to promote cooperation in grain programs. Senior policy and marketing officials met semi-annually to encourage greater co-ordination of wheat production and marketing. Although some considered that these consultations resulted in higher returns from the market, by 1980 the US embargo of exports to the U.S.S.R. overtook the consultations (B. Wilson 1981).

These developments represented the first indications that the dominant position of the CWB in grain marketing and their principal sources of support, the pool cooperatives, had reached a high point. The importance of wheat in Western crop production was being challenged by the trend toward crop diversification, particularly the rising importance of canola. Domestic feed wheat, barley and oats were returned to the open market, and canola would remain there, together with a range of special crops. Global markets were evolving, driven by technical developments in milling and food processing, changing consumer tastes and market demands, and rising incomes, particularly in emerging economies. Attempts to manage world grain markets through international arrangements were abandoned. Governments in many countries placed the buying and selling of grain in private hands.

However, the CWB maintained its successful direct sales program in relation to the USSR, China and other countries with centralized purchasing agencies, often with the assistance of commercial credit backed by a government guarantee. They also instituted an aggressive market development program in conjunction with the Canadian International Grains Institute which operated in partnership with Federal Government agencies. A contract program was offered for new varieties of wheat and other cereals as the CWB endeavored to adjust to the changing market environment.

REFORMS AND AGREEMENTS

Many of the trends that emerged in the 1970s influencing CWB operations continued and intensified in the following decades. Grain exports increased, driven by population growth, movement to cities and rising incomes. Despite continuing transport constraints, CWB exports reached record volumes. There were shifts in trading patterns as the EEC moved further into the export market, Brazil and Argentina stepped up exports, and East European countries became more self-sufficient. Middle income developing countries opened their economies under pressures from the IMF/WB for balance of payments issues, to remove costly government interventions and improve competitiveness. However, the U.S. experienced a decline in market share as grain support programs reduced their ability to compete, aggravated by a strong dollar. A virtual subsidy war ensued primarily with the EEC when the U.S. introduced an export enhancement program (EEP). The CWB responded with discretionary pricing to maximize sales in higher priced markets, including the U.S. By the mid-1980s agricultural trade was in disarray and the situation threatened the multilateral trading system itself. This was a major cause for launching the Uruguay Round of GATT negotiations. The lack of progress in previous rounds to liberalize farm trade was due to the reluctance of governments to accept obligations relating to domestic policies. In the ensuing negotiations, launched in 1987, Canadian farm programs affecting trade were on the negotiating table. Although the CWB operations were raised in the negotiations over export assistance activities, the fixed rail rates for grain exports under the Crowsnest Pass arrangement were vulnerable.

The Canadian government had recognized that the Crow freight rates were no longer remunerative, and Otto Lang, as Minister of Transport, launched a campaign in the mid-1970s to change them. Principal opposition to opening the Crow came from the Western farm cooperatives, and no progress was made. The Liberal Government undertook a broad program of rehabilitation of the rail system and in 1980 Transport Minister Jean-Luc Pepin initiated a major drive to change the fixed rates. The issue was extremely controversial, and while the CWB was not directly involved, their operation depended on an effective rail system. The Crow rate also had wide reaching impacts on the grains, oilseeds and crop sectors, as well as livestock and poultry production in the West, with some implications across the country. A broad, consultative process under Professor Clay Gilson (University of Manitoba) reached a consensus on a Crow Benefit subsidy system to allow freight rates to increase. However, the consensus broke down as some producer groups, particularly the pool cooperatives, opposed the package. Eventually a Crow Benefit subsidy was implemented to replace the Crow rate and later eliminated through a direct payment. Freight rates were allowed to rise to market-driven levels. Numerous regulatory changes were introduced in an attempt to manage the rail system and contain tariffs but controversy persisted over its performance and the merits of a highly regulated rail transport for grain and products in relation to an open, competitive model. In policy terms, the Crow rates no longer represented trade issues but frequent complaints were raised by the CWB with the railways and the Government, seeking better service and greater control over the system. But there were growing pressures from some producer groups for further deregulation and the removal of the CWB's direct influence in the handling and transportation of grain. One farmer cooperative, the United Grain Growers, for the first time, opposed the CWB monopoly. A growing number of non-Board grain and oilseed shippers did likewise. But the CWB Advisory Committee, initially a Government appointed body, was now elected and the majority of producers members favored Board control and regulation of rail transport. The issues surrounding the CWB monopoly and its strong influence throughout the grain sector from varietal selection to handling and transport became highly politicized.

The grassroots support for an orderly and compulsory marketing system had been led over the decades by the grain cooperatives but they were now showing signs of change. Commercial integration and competition from American entrants in grain handling, oilseed crushing and refining, flour milling and malting operations, forced the cooperatives to adjust. Initially, the pool cooperatives shifted to a corporate structure, primarily to improve access to financing for diversification and expansion. Their traditional support for nationalizing rail service, price guarantees to farmers, extension of the CWB monopoly to canola and other grain, and managing grain prices through international agreements was running counter to policy and market trends. Gradually the prairie pools were amalgamated following competitive struggles among themselves and evolved into a broadly based commodity trading corporation with multinational operations.

The GATT Uruguay Round of trade negotiations in agriculture resulted in a 1994 agreement designed to place limits on domestic and border policies with direct trade impacts. In the Agreement on Agriculture farm programs were classified into domestic support, import access and export assistance. Programs of domestic support were measured in terms of their trade effects, and commitments were agreed to reduce them. Import measures were converted to tariff equivalents, including programs that raised internal prices over world levels and reduction schedules were agreed. Export subsidies were also constrained and new export subsidies were prohibited. Rail subsidies under the Western Grain Transportation Act (WGTA) to West Coast and Churchill ports were subject to this discipline. State trading enterprises such as the CWB were required to operate in a commercial manner under previous GATT disciplines. The CWB operations were not directly impacted by the results although initial price guarantees and any pool deficit payments or other transfers would be affected. The Uruguay Round Agreement included a commitment to return to negotiations within five years resulting in the extended and unfinished Doha Round that followed. The limited result reached in the 2008 draft for agriculture included modest results apart from a qualified ban on agricultural export subsidies.

The Canada-U.S. Free Trade Agreement (FTA) reached in 1991 was much more significant in relation to CWB operations. It removed tariffs and import licensing for grains, including wheat and wheat products, creating a relatively open market. The use of export subsidies on bilateral trade and sales by public entities to each other below acquisition prices was prohibited. Canadian rail subsidies did not apply for shipments to the U.S. through Canadian west coast ports. The two-price wheat policy introduced in the 1970's which kept domestic prices above export levels through most of the 1980's was terminated in 1989 in anticipation of an FTA. The agreement did not prevent disputes from arising in the grain trade which frequently occurred but did provide procedures for their resolution. The FTA was broadened later to include Mexico as the North America Free Trade Agreement (NAFTA) took effect in 1994.

A steady increase in Canadian agricultural imports to the U.S., particularly grain, followed implementation of the FTA. This stimulated a series of protective actions by U.S. producer groups in the northern-tier states. Several factors were behind the increase in shipments of Board and non-board grains. These included the removal of fixed rail rates, the effects of U.S. programs that raised domestic prices relative to Canadian, particularly EEP (Export Enhancement Program), the weather, and a lower Canadian dollar. But the American complaints focused on CWB operations. Several actions and investigations under U.S. agencies and trade agreements found in the Board's favour. However, a claim that wheat and wheat product imports harmed U.S. farm programs led to a negotiated settlement in 1994 and resulted in a temporary cap on wheat shipments for one crop year.

It was also agreed to establish a Joint Commission on Grains to examine all aspects of the respective marketing and support systems and their effect on markets and competition to assist the two governments in reaching long-term solutions to the problems in the sector. The Commission report of October 1995 made many recommendations to improve trade in both directions with emphasis on market-oriented policies and reciprocal access. It recommended the elimination of export subsidies and excessive discretionary pricing practices, and suggested actions to that effect. In the U.S. case, EEP should be eliminated for all cereals and products. The CWB should operate at risk of profit or loss in the marketplace without precluding the use of pooling. Trade distorting effects of domestic programs in both countries should be removed and steps taken to ensure that relative levels of support are not imbalanced so as to create significant trade distortions. The Commission also suggested that the U.S. reduce expenditures on farm support and export programs, in addition to eliminating EEP. Relating to Canada aimed at CWB operations, it was suggested that pooling of wheat and barley allow for voluntary participation, and that Canadian firms be able to trade non-CWB wheat and barley. Another option suggested was the use of public offer prices on a global basis, or any comparable mechanism to encourage the Board to operate as if it were at comparable risk in the market. This was intended to overcome the lack of transparency in the Canadian system since the Board does not compete for its procurement of grain and hence the producer and others lack information on market values. Although the transaction prices of sales by both country systems are not released, in the U.S. case there are public grain exchanges to show prevailing prices, and buyers must compete to acquire grain.

Many other recommendations were made aimed at standardizing regulations and achieving equivalent treatment of each other's shipments with respect to border controls, access to infrastructure, transportation, storage and ports, in response to the growing integration of North American markets and broad globalization trends. The Commission recognized that short-term irritants could develop in the transition to a free trade environment and recommended the establishment of a joint producer/industry consultative committee to act as an early warning system to avoid formal disputes. Although some U.S. Commissioners pressed for quantitative triggers for remedial actions, this was not agreed, and one U.S. Commission member did not sign the report. There have been no significant grain disputes between Canada and the U.S. since the negotiated settlement of 1994, the Commission report, and the GATT agreement which included strengthened dispute resolution procedures. Nonetheless, U.S. farm leaders and members of Congress continued to condemn the bilateral grain trade and CWB operations (Gray, et al 1995).

A number of changes were made in CWB regulations and operations to adapt to the evolving economic environment of the 1980-90's indicating its declining dominance of Western grain marketing. In 1989, its authority to market oats for food use and export was removed by

Conservative Minister of State Charles Mayer, to encourage greater specialization and value-added activity. A Western Grain Marketing Panel was organized by Liberal Agriculture Minister Ralph Goodale in 1995, charged with examining marketing issues following implementation of FTA, NAFTA and GATT agreements, and the removal of transportation subsidies. An important focus was the intense debate centered on the CWB between those supporting the single-desk and those seeking greater freedom and choice in marketing their grain. In its report the Panel emphasized the important trend toward privatization of grain imports, resulting in more specific requirements in the types of grain required. It noted that apart from Canada, trade was also in private hands in major wheat exporting countries. In the case of the Australian Wheat Board a number of steps had been taken to create a vertically integrated grain trading company owned by farmers, as its monopoly powers were phased out. The Panel proposed that the CWB offer spot and forward cash prices for wheat as an option, and allow for voluntary pooling of feed barley which should be returned completely to the open market. Although Charles Mayer, now Minister of Agriculture, had established an open continental market for barley through regulation in 1993, this was successfully challenged by the Prairie Pools and returned to CWB monopoly control. The key strengths of the single-desk selling system found by the Panel included its international selling activities, price pooling, equalized delivery opportunities, economies of scale, joint risk management and perceived higher returns. Weaknesses of the CWB system included bureaucratic inflexibility, inadequate servicing of specialized markets, lack of transparency, and the discouragement of value-added activities, particularly for smaller specialist processors. Neither the Western Grain Marketing Panel nor the Canada-U.S. Joint Commission reached a conclusion on the sensitive issue of whether the monopoly power of the single-desk achieved higher prices in the market. Board supporters and the Board itself claimed a significant gain was achieved based in part on a recent study sponsored by the CWB (Kraft, Furtan, and Tynchniewicz). However, the Panel found that none of the transnational companies agreed with the study's conclusion that the CWB is able to earn premiums as a sales organization. A study of barley marketing commissioned by the Panel (Ken Agra) found no conclusive evidence that the CWB realizes any premium price for the six-row barley pool but may for two-row malting barley, probably reflecting quality factors. The Panel proposed that the CWB provide greater flexibility in acquiring grain from producers, in part to increase cash flow options. Regarding the proposed open market for feed barley, the Board could participate, and also retain its monopoly for malting barley. It recommended a corporate structure for the Board.

Minister Goodale introduced legislation to implement most of the Panel recommendations except for placing all feed barley on the open market, thus leaving the single-desk authority in place for barley exports and food use. Amendments to the CWB Act, passed in 1997, changed the Board from a crown agency to a shared governance corporation. A majority of the Board of Directors were farmer-elected members giving them some control over CWB operations although the CEO was appointed by the Government. The amendments also authorized the CWB to offer risk management options including the use of futures markets and cash-outs to improve producers' cash flow. Finally the legislation required consent of the Board of Directors and majority producer support by vote to alter the CWB basic controls.

The CWB had traditionally played a major role in grain handling and transportation beginning with wartime controls and legislated responsibilities to regulate deliveries to elevators and to railways. Under the pooling system the storage and transportation costs involved are shared by all producers. Depending on sales of Board and non-board grains, the CWB exercised a strong influence on deliveries into the elevator system including the allocation of port capacity. In the regulated system involving delivery quotas, rail-car allocations, east and west port terminals and both domestic and U.S./Mexican destinations, it is not surprising that there were frequent complaints by producers aimed at the main players, the railways and the CWB. There have also been modifications to their roles in key operations involving legislation under the Canada Transportation Act (TCA) and the CWB regulations. Following the removal of fixed rates and their replacement by cost-based freight rates with a Crow Benefit subsidy, a Grain Transportation Agency was established to work with the CWB and other shippers to co-ordinate grain movement. In 1995 when the Crow subsidy was eliminated, an industry-led rail car allocation system including the CWB was set-up for rail movement of Western grain. It represented a transition from regulated to commercial operations (Schmitz-Furtan 2000). The CWB continued to play a major role in elevator and rail allocation for Board grains including port capacity, and to deal with the railways for service. Under the TCA, rail rates are controlled, there is a cap on total revenue earned from moving grain and products, and other restraints intended to encourage efficient, competitive rail movement. Nonetheless considerable criticism of the grain handling and transportation system stimulated another review by Justice Estey in 1998. It covered the freight rate cap and recommendations for creating an efficient, viable and competitive system. The report recommended removal of the freight rate cap as well as the CWB role in transportation to port positions with the Board taking control of the grain at the port. Justice Estey also recommended that rail-car allocation be handled by the railways subject to a dispute-settlement mechanism. The CWB board of directors and some farm groups opposed these recommendations and a follow-up enquiry under A. Kroeger concluded that the historic divisions among Western stakeholders could not be bridged and the Estey recommendations were not implemented.

EXTERNAL AND DOMESTIC TRENDS FORCE REFORM

Many factors contributed to a decline in support of the monopoly wheat board for Western grain marketing. By the turn of the century, trends that were evident in the 1970's and accelerated in the following decades had become a global phenomenon. There were fundamental shifts over this period in grain production, marketing and consumption patterns. Freer trade, deregulation, global market integration and the revolution in information technology were strong catalysts of change. World-wide, governments retreated from direct interventions in economic systems in favor of market sensitive policies. As developing countries opened their economies, incomes rose, consumption patterns changed, trade increased, all stimulated by an enormous expansion in investment flows. Modern technologies lead to new varieties, better production techniques, improved food processes and more value-added products. Customized varieties, contract production, precise specifications, more sorting and blending, required flexible and open marketing systems that transmitted the demand pull of the consumers and processors back through the system to the farm gate and the research laboratory. Consolidation at producer level resulted in a majority of farm output coming from modern, larger-scale commercial businesses. Successful operators adopted new technologies and management systems to add value to their output. They required flexibility to manage their assets, finances and operations for best results. The pooling of grain for marketing by a single-desk does not fit as well in a modern agri-food industry.

Government policies generally trail longer term economic trends and respond to current developments and political pressures. The history of the rise and fall of the CWB over the last century followed this pattern. The economic realities and force of events in the first half of the century led to the establishment of the CWB, and eventually to its monopoly powers over the marketing of Prairie wheat. The pressures of producer groups to include other grains in its mandate added barley and oats. The post-World War II period of widespread government involvement in the grains industry, combined with direct marketing and multi-year contracts, deepened the CWB dominance in the sector with significant influence over grain research, handling and transportation. This was also a period when the persistent tendency of the grain sector toward surplus production combined with the long term decline in real grain prices reached the breaking point. Attempts by producer groups to bring order to grain markets, and with government support to raise or stabilize prices through international agreements largely failed.

By the 1980's the widespread use by governments of direct intervention in grain markets began to decline in favor of deregulation and private operations. Domestic farm support and border protection was becoming increasingly costly and disruptive. Modern technological developments, trade and investment flows were forcing policy change at all levels in the food chain. Gradually governments in most countries accepted the need to reform domestic farm policies and open markets to reduce distortions, lower costs and improve efficiencies through competition and market-sensitive programs. In Western Canada, a shift began away from the dominance of hard spring wheat to canola and special crops. Board control of canola marketing was denied and domestic feed grains were returned to the open market. Farm income support was delivered largely by direct payments. There was considerable consolidation and corporate integration of the grain handling and transportation system in Western Canada. Although the fixed Crow freight rate was removed, extensive regulation of the system for grain movement remains, and the search for a viable, competitive model to deal with the rail duopoly is continuing. Adjustments to the CWB corporate structure and its operations were made by the turn of the century in response to producer pressures for greater flexibility in its pricing and contracting options. But a strong public debate continued between groups that supported the single-desk and those opposed to CWB monopoly powers and its influence throughout the grain system. While some producers favored pooling to handle their sales and risk, others pressed for the freedom to manage their own marketing and financial needs. It had become evident that compulsory marketing through a single desk no longer met many of the needs of a modern, commercial farm business.

Following an intense public debate over the merits or otherwise of single-desk marketing, in October 2011, the Conservative Government introduced the Market Freedom for Grain Farmers Act to replace the CWB legislation. Agriculture Minister Gerry Ritz stated that the "Act will give Western Canadian grain farmers the right to choose how they sell their wheat and barley". Effective August 1, 2012, the CWB monopoly was removed and an interim Board continued as a voluntary marketing institution. It was supported by a government guarantee of initial payments and other funding for its transition to full private ownership within a five year period. The majority farmer-elected board of directors was removed and a five-member government-appointed board established, including the existing President, Ian White. Under the Act, the new board President is able to acquire property with Ministerial approval and to handle all grain and special crops for export and domestic use.

The voluntary CWB offers cash, futures and pooling contracts for the main grains, including canola, and negotiates with existing companies for handling and transportation services. It has acquired some inland and terminal capacity and has begun construction of country gathering facilities.

In initial steps toward privatization before the deadline of August, 2017, the CWB offers prairie farmers equity in the organization to be earned through grain deliveries. It also plans to establish a network of grain handling assets across the prairies. The President stated that the interim Board is planning to develop a corporate structure that keeps farmer's shareholdings intact although he acknowledged that outside shareholder equity will be needed to develop a viable private grain operation. In any event, by 2017, the CWB as a government institution will be terminated. While inevitably, politics played a role in the development and extension of CWB powers, and their decline, it was abnormal events, the evolution of the farm and food sectors, and major trends in world grain markets, that were the main drivers of the rise and fall of the Canadian Wheat Board.

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[i] This historical summary by W. M. Miner, former Co-ordinator of the Federal Grains Group draws extensively on A Century of Canadian Grain by C. F. Wilson and incorporates helpful suggestions by Douglas Hedley. Both the author of this of this paper, and Charles Wilson whose extensive historical book "A Century of Canadian Grain" was the main source of the early history of the CWB, were closely involved in Federal grain policy. Dr. Wilson was born in London, Ontario and earned a B.A. from the University of Western Ontario and M.A. and Ph.D from Harvard. He became the first Director of the Wheat and Grain Division of the Department of Trade and Commerce in 1944, and was posted to Rome and Copenhagen as a Trade Commissioner, and Consult General in Chicago. Dr. Wilson was Canadian delegate to numerous international grain meetings and conferences. He signed the 1948 International Wheat Agreement on behalf of Canada.

Miner grew up on a farm in Saskatchewan, received a B.Sc. and M.Sc. from the University of Saskatchewan and joined the Trade Commissioner Service in 1955. He was posted to Hong Kong to assist C.M. Forsyth-Smith in developing Canadian's first wheat sales to the Communist Chinese Government, and later served in Mexico and London. Miner was also involved in numerous international negotiations and conferences of the International Wheat Agreement and GATT. He led the Canadian delegation to the 1977-78 U.N. Grain Conference and follow-up exporter co-operation consultations. Miner served as marketing advisor to the Grains Group and later as co-ordinator. In 1988, as Senior Research Associate at the Institute of Research on Public Policy, he worked with Dr. Dale Hathaway, Visiting Fellow at the Institute for International Economics, and a group of professionals from around the world to develop a policy statement on reforming world agricultural trade. Hathaway and Miner were co-editors of "World Agricultural Trade: Building a Consensus". This initiative formed part of the founding of the International Policy Council on Agriculture, Food and Trade in 1989. Miner was Canadian Co-Chair of the Canada-U.S. Joint Commission on Grains, whose final report was released in October, 1995.

[ii] Pooled marketing involves delivery of a commodity into a common pool for sales with the net proceeds distributed to participants on the basis of individual shares of deliveries when the pool is closed, usually on a crop-year basis. The concept originated in Australia as part of wartime wheat policy and was also practised by some US farm groups (C. Wilson 1978). The procedure usually involves an initial payment on delivery (which may be backed by a government guarantee), possibly interim payments, and a final payment when the pool is closed. In establishing the first Wheat Board in 1919, the Canadian legislation provided for an initial advance, sales to best advantage and the pro-rate distribution of resulting profits through participation certificates. It operated on a voluntary basis for one crop year.

[iii]The US established a food administration grain corporation during World War I to manage its wartime food policy including the control of wheat marketing. In 1933, the Federal Surplus Relief Corporation was organized in the US to be followed by the Commodity Credit Corporation responsible for grain surplus disposal activities which remains in operation.