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Economics Newsletter

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CAN THERE BE A U.S. - CANADA WHEAT EXPORT PRICE AGREEMENT?

by Arthur B. Sogn

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Recently there has been considerable discussion about the possibility of a pact between Canada and the U.S. regarding a minimum price at which they would export wheat. This sounds like an ideal situation at first- especially since Canada and the U.S. presently export about 75% of the wheat in the world. The inference has been made also that all wheat exporting countries should join together in a wheat cartel such as the oil cartel. As with most ideas, there are some problems that must be overcome before they can be acceptable and effective.

One of the problem areas of a bilateral agreement with Canada on the price of wheat is the differences in our wheat marketing systems. Our wheat is exported through a relatively free and open market, while Canada exports most of its wheats through the Canadian Wheat Board, a centralized state trading agency. The difference here is Canada has a firm price to operate from, where the U.S. traders must try to buy, sell and hedge at a competitive price. This is not to imply that the Canadian system is better, because if the Wheat Board cannot sell at a profitable price over what is pledged to their farmers, the Canadian government makes up the difference. Canadian wheat growers' initial payment for next year's wheat crop is \$3.00 (Canadian dollars) for #1 Canadian wheat. This amounts to about \$2.75 at the Canadian farm. Presently the only guarantee we have for wheat price is the target price of \$2.47 for some of our production and a loan value of \$2.25.

The fact that the Canadian farmer has a higher price guarantee than the U.S. farmer has created a little jeal-

ousy among United States farmers, but the difference again is not what it seems. True, the Canadian farmer is promised a higher price but it is for the bushels per acre the wheat board says he can sell. This allotment the Canadian farmer can sell is presently six bushels per acre of red spring wheat, with the annual total for wheat expected to be between 9 and 11 bushels per acre.

Another difference between Canada and the U.S. is that we have different grades for our wheat. It would be extremely difficult to establish minimum prices for different grades. Not only do we have different grades for similar wheat, we also have three other classes of wheat that Canada does not have.

Canada raises Spring and Durum Wheat as we do but we also have Hard Red Winter Wheat, Soft Red Winter Wheat and White Wheat. These three wheats constitute 45, 16, and 13.5 percent or a total of 75% of our wheat production. White, Hard Red Spring and Durum Wheat make up 19 and 6.5 or about 25 percent of our production.

Then there is also the difference in our currency exchange. Over the years our dollars have been worth more than Canadian dollars and vice versa. Presently Canadian dollars are worth about 5 cents less than our dollars, and it is rumored that some bankers think the Canadian dollar may fall to 10 cents under ours. This would mean they could undercut us in export trade even at the same price for wheat. This difference in currency values would mean our wheat would have to be priced at \$2.70 to compete comparably with \$3.00 Canadian wheat. There are other problems in

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establishing a minimum price for Canadian and U.S. export wheat:

1. We have no monopoly on wheat in the world - other countries could increase production and we would lose our advantage.
2. There are in most instances, substitutes for wheat if it should be priced high comparatively.
3. Canada has subsidized freight rate for grain movement; our barge rates fluctuate widely according to demand and our truck rail rates are not presently subsidized so must reflect all increasing costs.

Canada and the U.S. do have some wheat problems in common this year. The major problem (for wheat producers) is that there is just too much wheat for current demand. World production is up 16 percent:

Wheat Production (Million Metric Tons)

COUNTRY/AREA	1975/76	1976/77	CHANGE
West Europe	48.5	50.5	+ 4%
Soviet Union	66.2	95.0	+44%
East Europe	28.5	33.5	+18%
Canada	17.1	23.5	+38%
Others	130.8	142.7	+ 9%
All Foreign	291.1	345.2	+19%
United States	58.1	58.4	+ 1%
World Total	349.2	403.6	+16%

According to projected figures for the 1976-77 crop year each country will have half of its 1976 wheat production left over when their respective crop years are over:

1976-1977	DOMESTIC			CARRY-OVER
	PROD.	USE	EXPORT	
Million of Bushels				
Canada	886	205	485	474
U.S.	2,147	743	975	1,095

Enumerating all the problems related with a bi-lateral Canada - U.S. wheat agreement seems very negative. However, there can be benefits for both countries to discuss their combined role in the export arena so they do not expend their efforts fighting each other for the export trade. A spirit of North American cooperation can be developed that could make it advantageous to consider the 75 percent of exportable wheat as a block. So while a rigid agreement on wheat export price seems very difficult and, from my point of view, improbable, let us encourage the leaders of our countries to investigate the degree of cooperation possible in spite of our differences.

 * AGRI-BUSINESS DAY *
 * * * * *
 * TUESDAY *
 * (April 5) *
 * * * * *
 * 8:30 A.M. *
 * Staurolite Inn, Brookings *
 * * * * *

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