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*REPORT OF THE  
COMPTROLLER GENERAL  
OF THE UNITED STATES*



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Grain Marketing Systems In  
Argentina, Australia, Canada, And  
The European Community ;  
Soybean Marketing System In Brazil

Marketing systems and agricultural policies of major grain and soybean producing and exporting countries vary with the political orientation toward the agricultural sector. An assortment of plans are operating in these countries to implement domestic and export marketing systems.

This report was made in response to a request by the Subcommittee on Multinational Corporations, Senate Committee on Foreign Relations, so that it could better evaluate the U.S. marketing system by understanding the marketing systems of other countries.

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MAY 28, 1976

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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The Honorable Frank Church  
Chairman, Subcommittee on Multinational *SF 11 21300*  
Corporations  
Committee on Foreign Relations  
United States Senate

Dear Mr. Chairman:

This report is in response to your request of October 6, 1975, for information on marketing systems of principal grain supplying countries. We studied the ways that Canada, Australia, Argentina, Brazil, and the European Community allocate their supplies, the roles of international grain companies, and the agricultural policies and trends within these countries.

The Subcommittee's staff was given interim staff briefings and its comments were considered in preparing the report.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

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## C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
Scope of review	2
2 ARGENTINA	3
Introduction	3
National Grain Board	6
Composition of Board	7
Acquisition of grain	7
Domestic operations of the Board	8
Financial problems	8
Storage and distribution	9
Misuse of government subsidy program	10
Forecasting and inventory controls	10
Informal parallel marketing system	11
International marketing operations	12
Government-to-government agreements	12
Tenders	13
Direct negotiations	14
Supply management and marketing strategy	15
3 AUSTRALIA	17
Introduction	17
Grain boards	18
The Wheat Board	18
Barley boards	18
Marketing operations	19
Price stabilization	19
Assistance to producers	20
Delivery quotas	21
Transportation, handling, and storage	21
Domestic sales	22
International marketing of wheat	23
Government-to-government sales	24
Commercial sales	24
Food aid program	26
International marketing of barley	26
Australian Barley Board	26
Western Australian Barley Board	27
Queensland Barley Board	27
New South Wales Barley Board	27
Private exporters	28

BEST DOCUMENT AVAILABLE

CHAPTER		<u>Page</u>
4	CANADA	29
	Introduction	29
	Grain production	30
	The marketing system	32
	Wheat Board	32
	Grain Commission	32
	Acquisition of grain	33
	Movement of grain	35
	Delivery system	37
	Handling of grain	38
	Domestic marketing	40
	International marketing	40
	Marketing decisions and pricing	42
	Recent changes	48
5	EUROPEAN COMMUNITY	50
	Introduction	50
	Production and price support	51
	Intervention procedures	52
	Special measures	54
	Sales from intervention stocks	54
	Domestic marketing	55
	Compensatory price adjustments	56
	Imports	57
	Import licenses	58
	Import levies	59
	Advance levies	60
	Preferential import agreements	61
	Transshipments	61
	Exports	61
	Licensing	62
	Subsidies	62
	Tendered subsidies	63
	Levies	64
	Limitations on reexport	65
	Control	65
	Food aid program	66
	Bilateral agreements	67
6	SOYBEAN MARKETING IN BRAZIL	68
	Introduction	68
	Soybean production	70
	Price support	70
	Market analysis and forecasting	71

BEST DOCUMENT AVAILABLE

CHAPTER		<u>Page</u>
6	Research	72
	Credit and subsidies	73
	Transportation and storage	74
	Export corridors program	74
	Japanese investments	75
	U.S. Government involvement	76
	Export marketing	77
	Government control and incentives	79
	Export licensing	79
	Direct export incentives	81
	State trading organization	82
	Marketing agreements	83
	Private sector involvement	84
	International grain companies	84

APPENDIX

I	Letter dated October 6, 1975, from the Chairman, Subcommittee on Multinational Corporations, Senate Committee on Foreign Relations, to the Comptroller General	86
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ABBREVIATIONS

EC	European Community
GAO	General Accounting Office

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D I G E S T

Marketing differences evolve mostly from the political orientation of the respective governments. A market system cannot be effective in achieving its objectives, however, if it does not have the faith and confidence of the producer.

In comparing the different systems, volume of production, variety of crops, geographical area of production, agriculture infrastructure, and relation of agricultural export earnings to the total economy must be considered.

AGRICULTURAL POLICY

In Canada, Australia, and Argentina, only government wheat or grain boards are authorized to buy wheat and certain feed grains. Canadian and Australian wheat boards are producer oriented. Argentine agricultural policy is geared primarily to benefit the urban population at the expense of producers. (See pp. 6, 18, and 32.)

The European Community, in contrast with the other markets GAO studied, produces primarily for domestic consumption and uses exports as a device for disposing of surpluses. When European Community prices are higher than world prices, subsidies are used to generate exports and levies are used to limit imports. (See pp. 51, 62, and 64.)

Brazil's agricultural policy is directed toward expanding its developing soybean industry and increasing its exports. Brazil gives credit, tax breaks, and other incentives to producers. (See p. 69.)

GOVERNMENT INTERVENTION

Marketing systems GAO studied contained an assortment of guaranteed producer and domestic support price schemes.

- The European Community support price benefited producers but consumers generally paid higher-than-world-market prices. (See p. 51.)
- The Australian Wheat Board uses a wheat stabilization fund to smooth fluctuations in grower income and ties the domestic wheat price to growers' production costs. (See p. 19.)
- Argentine producers are paid a fixed price, which was about one-third of world market prices, and Argentine consumers benefit from on-again, off-again subsidies to Argentine millers and other processors. (See pp. 3 and 10.)
- The Brazilian Government has set attractive minimum soybean prices, but high world market prices have made price support unnecessary. (See p. 70.)
- The Canadian Wheat Board has established a minimum price for producers and sells wheat to domestic users at prices considerably below world market prices. The Canadian Government compensates the Board for the difference between the set price and the Board's average monthly export sales price. (See p. 40.)

#### PRODUCTION AND TRADE PATTERNS

During the last decade there has been little increase in wheat and feed grain production in the countries in GAO's study. On the other hand, Brazil's soybean production has increased tenfold since 1969. (See pp. 5, 17, 31, 51, and 68.)

During the last decade, Canada lost half of its British and European markets but replaced them with exports to the Soviet Union and the People's Republic of China. However, the precarious nature of the new markets became evident in 1968 when exports to Russia dropped to nearly zero from the 200 million bushels of previous yearly sales. (See pp. 42 to 44.)

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The European Community also experienced a change in its trade pattern; its intracommunity trade has increased two and one-half times since its establishment in 1957. Even so, the European Community remained the world's largest importer of agricultural commodities and products. (See p. 55.)

The Australian grain markets expanded to the Soviet Union and the People's Republic of China. But, Japan remained one of Australia's major wheat and barley markets. (See p. 24.)

Brazil, with the tremendous increase in soybean production in the 1970s, became a serious competitor for traditional U.S. soybean markets. The bulk of the soybean and meal exports went to European markets, primarily the Netherlands, Germany, and Italy. However, there was little penetration of the Japanese market by Brazilian exporters even though increased Japanese investment in the Brazilian soybean industry occurred. (See pp. 75 and 77.)

Two-thirds of Argentina's 1975 grain exports went to Spain, Italy, Mexico, and the Soviet Union. Argentine exports to the Soviets fulfilled optional origin contracts made between the Soviets and international grain companies which allowed these companies to choose the source of the grain. (See pp. 12 to 14.)

#### INTERNATIONAL GRAIN COMPANIES

International grain companies continue to play an important part in each market system. For example, even though Australia, Canada, and Argentina export larger amounts of wheat under government-to-government agreements, private companies market the residual grains. These countries depend on the companies in varying degrees for worldwide market intelligence. (See pp. 13, 14, 24, and 40.)

International grain companies in Brazil have a major role in processing and marketing soybeans. The Brazilian Government recognizes that the country needs the capital and technology of these companies in order to realize its agricultural potential. (See p. 84.)

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Most European Community grain exports to non-member countries were handled through international grain companies. (See p. 61.)

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## CHAPTER 1

### INTRODUCTION

In the 1973-74 crop year, world wheat production reached a record 367 million metric tons, of which 50.6 million tons entered the world export trade as wheat or wheat flour; feed grain production was 640 million metric tons, of which 71.2 million tons was exported; and soybean production was 51.5 million metric tons, of which 19.0 million tons was exported. Production and export data for these commodities is shown below.

#### Wheat

<u>Exporter</u>	<u>Production</u>	<u>Export</u>	<u>Percent</u>
	(million metric tons)		
Soviet Union	109.7	5.0	5
United States	46.6	23.5	50
European Community	41.4	2.6	6
Canada	16.5	11.2	68
Australia	12.1	5.2	43
Argentina	6.6	1.1	17

#### Feed Grains

<u>Exporter</u>	<u>Production</u>	<u>Export</u>	<u>Percent</u>
	(million metric tons)		
United States	186.5	43.9	24
Canada	18.0	2.6	14
France (note a)	23.6	9.2	39
Argentina	16.3	8.5	52
Republic of South Africa	11.0	4.2	38
Australia	4.4	1.9	43

a/Most of France's exports were within the European Community.

#### Soybeans

<u>Producer</u>	<u>Production</u>	<u>Export</u>	<u>Percent</u>
	(million metric tons)		
United States	33.6	14.0	42
Brazil	7.4	4.8	65
People's Republic of China	6.8	-.3	-4

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SCOPE OF REVIEW

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In a letter dated October 6, 1975, the Chairman of the Subcommittee on Multinational Corporations, Senate Committee on Foreign Relations, stated that for the Subcommittee's investigations of the U.S. grain marketing system it was important to have a clear understanding of how other grain marketing systems operate and asked GAO to prepare a detailed report on selected export marketing systems. We therefore made a study of grain marketing systems in Argentina, Australia, Canada, and the European Community and of the soybean marketing system in Brazil.

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We reviewed published documents available from U.S. Government agencies and international organizations and interviewed officials and employees of the Departments of Agriculture and State and of the Central Intelligence Agency. We also interviewed officials of the selected countries' embassies in the United States.

In December 1975, we visited locations in four countries and the European Community, and our descriptions of the marketing systems relate to those in effect at that time. During our overseas visits, we interviewed officials and examined pertinent data at U.S. Embassies, Missions, and consulates. We also interviewed officials of the foreign governments, international and agricultural organizations, grain trade, and financial institutions. We were not always able to corroborate various representations, because we did not have access to data on transactions under the control of foreign governments and private companies.

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## CHAPTER 2

### ARGENTINA

#### INTRODUCTION

The Government of Argentina has been encountering serious economic problems. A staggering inflation rate of about 300 percent resulted in 13 devaluations of the peso 1/ in 1975. A dramatic reversal in the country's balance of payments changed its international reserves from a positive \$1.8 billion in June 1974 to an estimated \$700 million deficit by October 1975.

Since 1944, the government's domestic economic policy has been to promote social and economic development in the urban industrial sector. This has been done in part at the expense of the agricultural sector. Government programs that assure low priced food to urban residents, subsidize domestic manufacturing, and increase employment in the public sector are made possible in part by agricultural programs under which grain producers receive from one-fourth to one-third the world price of their commodities from the government. 2/

The prices stipulated by the government for domestic purchase and sale of grains are developed before the start of the crop years. 3/ The Department of Agriculture and Livestock proposes prices in consultation with and subject to approval by the Minister of Economy. In setting prices, both formal and informal consultation occurs between government officials and affected interests.

Formally, the government prices are announced after regional consultation between functionally organized confederations, government-recognized interest groups, and government officials. Informally, many of these same groups

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1/ In 1975 the financial value of the peso ranged from 10 cents to 2 cents.

2/ This study examined the grain marketing system in operation in December 1975.

3/ Harvesting occurs during November to December for wheat and other small grains and during March to April for corn.

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lobby for particular price strategies in the office of the Department of Agriculture while the Department is developing price proposals for the Minister of Economy.

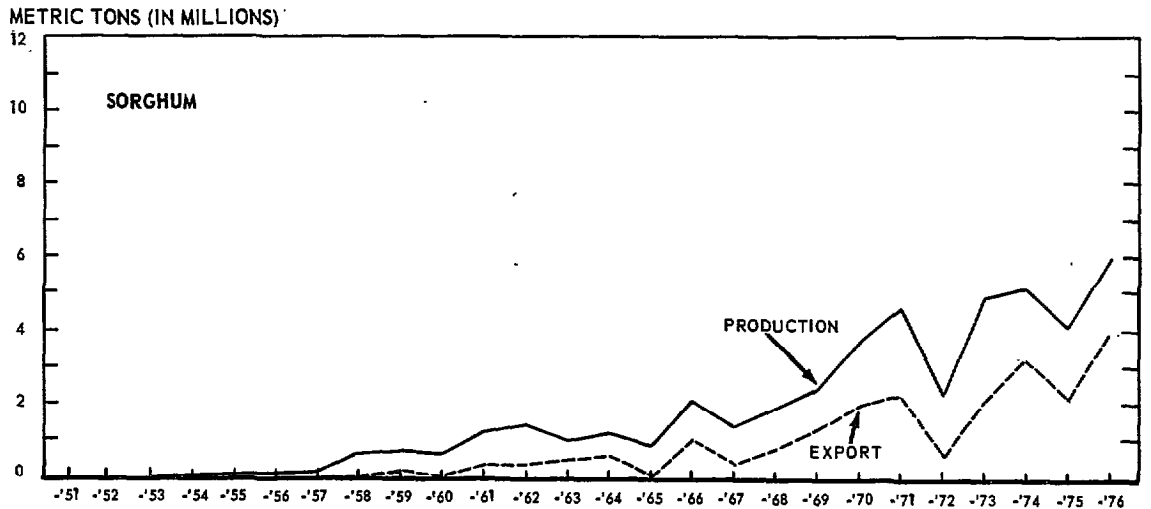
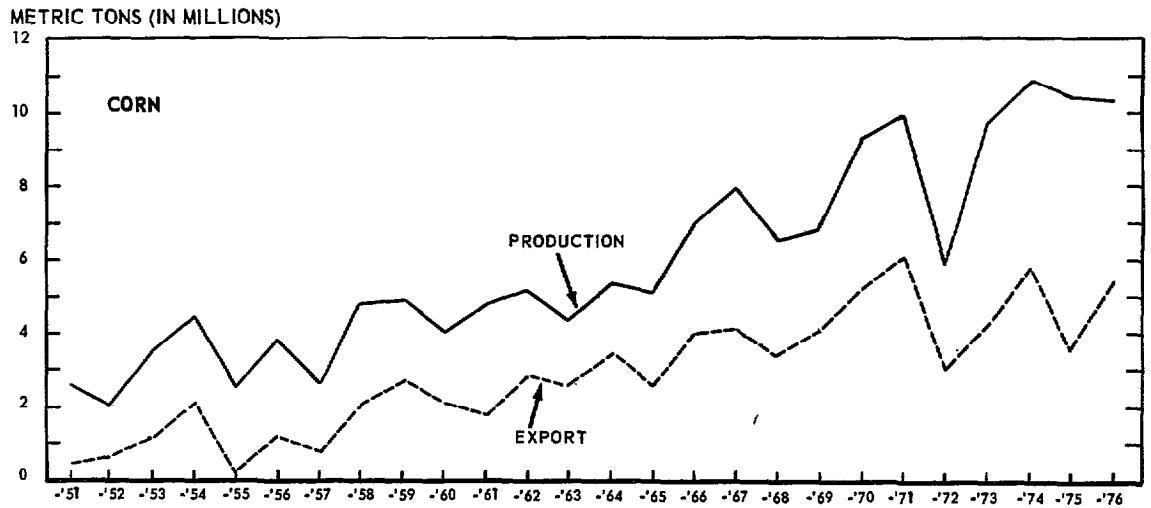
This informal consultative process is as significant as the formal one and continues even after prices have been officially announced. The announced price for 1975-76 wheat was immediately increased after trade interests and producers held a 72-hour stoppage of deliveries to market during the third week in May 1975.

The Department of Agriculture and Livestock also makes price adjustments during the year on its own authority to maintain the purchasing power of the approved price against inflation. Between March and December 1975, the hard wheat price was adjusted 5 times and prices rose from 125 to 425 pesos per 100 kilograms.

After a poor production year in 1974-75 of only 5.7 million metric tons of wheat, Argentina produced 8.4 million metric tons in the 1975-76 marketing year. Corn and sorghum also showed substantial increases.

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ARGENTINA'S PRODUCTION AND EXPORTS OF WHEAT, CORN AND SORGHUM



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Increased wheat production was primarily attributable to poor cattle prices after the European Community closed its market to Argentinian beef and to the government's higher wheat-pricing policy.

The extent to which short-range wheat production increases can be maintained solely by higher government prices is limited. Larger production increases depend not only on prices but also on government policies affecting the cost of production inputs, such as fertilizer, pesticides, irrigation equipment, and machinery. In the past, government policies have tended to adversely affect the use of these inputs.

#### NATIONAL GRAIN BOARD

For more than a decade before 1974, Argentine agriculture operated within a free market structure. Grain was purchased from producers by private merchants or cooperatives who consigned it to brokers (Argentine commission men) in major markets where it was sold to domestic processors or exporting firms.

During this period, the National Grain Board was the principal government grain agency. Its role was limited to maintaining a minimum price support program and negotiating bilateral sales agreements with agencies of other governments. The Board used private trade and cooperatives by transferring contracts to them to execute deliveries under these bilateral agreements.

Since 1974, the role of the National Grain Board <sup>1/</sup> has been greatly expanded. It is the sole legal market for all Argentine sales and purchases of wheat, corn, and sorghum. All producers must sell to the Board and all purchasers must buy from the Board. All merchants, brokers, and cooperatives buying and selling Board grains at designated prices act as agents for the Board and receive stipulated commissions from it. Only the National Grain Board can sell Argentine grains for export.

The Board is also responsible for establishing domestic and export grades and standards, issuing certificates of quality for all grains exported, and managing Board storage facilities. Most terminal storage of grain is in the hands of the Board.

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<sup>1/</sup> In April 1976, the U.S. Department of Agriculture reported that the Argentine Government will end its monopoly marketing of wheat, corn, and sorghum, and that trade in these grains, both domestic and export, will again be in the hands of private dealers and cooperatives.

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### Composition of Board

The Board, which is composed of seven members, operates under the direction of the Secretary of Agriculture and Livestock. The president, vice president, and two of the commissioners are selected by the Secretary of Agriculture and Livestock and appointed by the Minister of Economy. Three other commissioners are selected by the Minister of Economy and approved by the president. Presidentially approved appointees traditionally represent officially sanctioned labor confederations, agricultural cooperatives, and the business community.

Even though Board functions greatly expanded in 1974, the size of the staff--6,000 employees--has not increased since the mid-1960s. It has about 8 field offices at terminal embarkation points and between 30 and 200 employees at each point.

Board operations and those of its field offices, are functionally divided into five divisions, each centrally managed and directed by the Board. The chain of command to each field office flows downward through the division to a regional 3-man appointive board and then to local divisional employees.

### Acquisition of grain

Producers pay for delivering their grain to either a country merchant or a cooperative. The merchants do not take ownership of the grain, so bear no price or credit risk; however, as competition for grain sales to the Board increases, they perform additional services as a means of maintaining their clientele, including occasionally extending credit to sellers and arranging for transportation from farmer to merchant.

The Board uses brokers and marketing cooperatives to make arrangements for internal distribution. Brokers and cooperatives submit papers to the Board supporting (1) deliveries to private mills, warehouses, or port elevators, (2) merchant and broker commissions, and (3) transportation costs. Brokers are also instrumental in arranging loans for planting and harvesting. The trade estimated that about 30 percent of crops is usually obligated for payment of advances of credit. Thus, the producer actually receives the Board price less any debt obligations. The ability to provide the producer with credit largely determines which entity becomes the exclusive agent of the producer. According

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to a broker, brokers are more responsive to the producers and handle more than three times the trade handled by cooperatives.

Payment to the producer is made through brokers and merchants. Previously, the Board paid merchants and cooperatives a commission ranging from 3 to 4-1/2 percent of the Board purchase price. Recently, the commission was adjusted to a fixed amount equal to approximately 5 percent of value. For handling the movement of the grain from the merchant to the miller or port elevator, the Board pays brokers a commission of 1.25 percent and cooperatives 1.45 percent of Board purchase prices.

#### DOMESTIC OPERATIONS OF THE BOARD

The Argentine marketing system is facing a number of serious problems, including limited financial resources, shortage of storage capacity, inadequate inventory management, and an outdated crop intelligence and forecasting system. These problems have resulted in delayed payments to producers, overselling of crops, misuse of the government subsidy program, and a large unsold 1975-76 wheat crop.

Related to these marketing problems, and in conjunction with low Board prices, Argentine agriculture is characterized by informal parallel grain markets.

#### Financial problems

The Board, despite the fact that it pays only one-third of world market prices, has at times operated with a weak financial base because export revenue is controlled by the Argentina Central Bank, and proceeds from exports were not made available to the Board for payment to producers. Hence, the Board experienced a cash flow problem.

Board policy is to pay 96 percent of Board prices to the producer within 10 days of delivery and the balance within 30 days. According to trade sources, Board payments for the last crop year were delayed for up to 150 days due to lack of funds. In a period of 300-percent inflation, producers were faced with serious devaluation of their sales. For the 1975-76 crop year, the Board is reported to have improved on the timeliness of its payments.

The Central Bank has been able to obtain significant financial assistance from United States and Swiss Banks and from the International Monetary Fund. Their support improved

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Argentina's general financial atmosphere. Specific examples of U.S. financial support include a \$50 million advance by the Chemical Bank in September 1975, a \$30 million advance by Chase Manhattan also in September, and a \$50 million advance by Wells Fargo Bank against a future International Development Bank disbursement.

On November 3, 1975, a consortium consisting of the Chemical Bank, Bank of America, and Bank of Boston provided the Board with \$100 million in direct export support. The agreement was made with the Argentine National Bank to provide a revolving fund which would be disbursed based on export orders. It was reported that a large portion of the initial \$100 million had been advanced before the agreement was formally signed.

#### Storage and distribution

At the consummation of the sale, the grain is the property of the Board. As previously stated, the Board uses brokers and cooperatives as agents in arranging sales to domestic users and transportation to Argentine millers and port elevators. The Board pays transportation costs from the merchant to the domestic miller or to port elevators. It also pays a rental fee for grain stored in private facilities.

Private estimates for the 1975-76 crop year have put the combined maize and wheat crops at 16 million metric tons, sorghum at 5 million, soya and sunflower seeds at 2 million, and other crops at 2 to 4 million metric tons, for a total of 25 to 27 million metric tons. However, Argentina's current storage capacity is estimated at only 11 million metric tons.

The Board does have a plan to spend 7 billion pesos for increased storage capacity and is also negotiating with the World Bank for a \$680 million credit which would be used in part to increase storage capacity.

This storage will not be available for about 2 years, however, and many tons of grain must be bagged and stacked in sheds and will be damaged by sun and rain. This is not a new problem. For many years Argentina has encountered port congestion and incurred damaged crops because of inadequate storage space.

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### Misuse of government subsidy program

In accordance with the governmental policy to maintain low consumer prices, the Board, under a quota system, has sold grain to millers at prices below those paid to the producer. At one time during 1975, the Board was buying the 1974-75 wheat crop at 98 pesos per hundred kilograms and selling it to the miller for 57 pesos. In July 1975, the Minister of Economy withdrew this domestic subsidy, stating that, had it been maintained, it would have cost 6 billion pesos. Subsidized items were used for purposes other than those for which the subsidy was designed. Subsidized corn and wheat purchases from the Board were also being resold to the Board at the higher producer prices.

For the 1975-76 wheat crop, the government reinstated the subsidy program, purchasing wheat at 427 pesos and selling it to the millers for 165 pesos.

### Forecasting and inventory controls

Many of the Board's problems in managing grain marketing develop from poor forecasting and inventory controls. In the past, Argentina's crop reporting system was initiated by the British-owned railways, which reported on areas sown, rainfall, and crop harvest. When the railroads were nationalized, this service was replaced by a system which amounts to little more than internal forecasting within the Department of Agriculture and Livestock during the crop year and periodic adjustments of published official statistics.

Trade sources stated that official agricultural figures did not reflect the Argentine producers' decision to hold back about 1-million tons of the 1974-75 crop in order to benefit from higher 1975-76 support prices. The trade believes that producers held back deliveries because the Board announced the higher 1975-76 prices, which were double the prior year prices, before delivery of previous grain crops was completed.

The Board has a fully computerized inventory system that reports the amount and location of grain in the system at any given time as well as names, amounts, dates, and prices of all Board sales. The system includes daily telex and telephone confirmation of deliveries to and shipments from Board-owned port elevators. Once a week, Board delegations report by telex the deliveries to and shipments from Board-owned country elevators. However, most interior storage remains in the hands of private merchants and the Board relies

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on owners for information on privately stored grain. The reliability of the data base for the Board's computerized inventory program was not discussed by government officials, but some private traders heavily discounted it.

#### Informal parallel marketing system

The informal parallel market gains its strength from Argentina's pricing system and is fostered by weaknesses in the formal system. In December 1975, the Argentine producer was receiving 425 pesos per hundred kilos of wheat from the Board, while in Paraguay, Brazil, and Uruguay wheat was selling for 2,000 pesos per hundred kilos, a compelling incentive to export grain directly through the parallel market instead of delivering it to the Board. It was estimated that 50 percent of farm production in some areas was moving in the parallel market.

For example, according to individuals familiar with trade practices, trucks and boats arrive empty from Paraguay with completed bills of lading indicating Paraguayan exports from Argentine ports. The vehicles or vessels are filled with Argentine grains which are then exported as foreign products.

It is difficult to estimate the size and extent of the parallel market. Some individuals described it as a small-scale attribute of peasant society; others characterized it as a dynamic and sophisticated part of the Argentinian agricultural economy. One official of an international grain company estimated that about 25 percent of Argentina's total exports, representing about \$1 billion were moving outside of the formal systems. One trade source estimated that, in addition to wheat and corn, about 10 percent of all flour, 30 percent of all rice, and 30 percent of all soybeans were exported in the parallel market.

Another source alleged that domestic millers who are restricted through a government quota system are willing to pay producers higher prices for grain and, in order to get additional wheat, will deal with producers through brokers who are bypassing the Board.

These transactions are not reported but are reflected in the downward adjustments of the Department of Agriculture and Livestock production figures at the end of the crop year.

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## INTERNATIONAL MARKETING OPERATIONS

Official government statistics show that about 50 percent of Argentina's grain is exported, usually accounting for one-third of Argentina's export earnings. Argentina's peak year for wheat was 1964-65 when 6.4 million metric tons of the 11.3 million metric tons produced was exported. Wheat exports recently have not approached previous record levels. Corn exports have approached their 1934-39 levels and constitute roughly 50 percent of Argentina's total corn production. Grain sorghum, which was not produced in large quantities until the late 1950s, has become increasingly important as an export commodity.

Two thirds of Argentina's 1975 grain exports, which totaled 8.1 million metric tons, went to Spain (1 million metric tons), Italy (1.7 million metric tons), Mexico (1.3 million metric tons) and the Soviet Union (1.3 million metric tons). The Soviet Union was the major importer of Argentine wheat receiving 739,249 metric tons of the 1.5 million tons exported. Italy was the major importer of Argentine corn and sorghum.

As provided by presidential decree 704, the National Grain Board can export grains through (1) direct government-to-government agreement, (2) tendering grain for bids, and (3) direct negotiations.

### Government-to-government agreements

The Department of Foreign Trade in the Ministry of Economy plays a large role in negotiating bilateral government-to-government grain agreements. These bilateral agreements are similar to letters of intent. Argentina agrees to supply and the importing country agrees to buy a stipulated minimum amount of grain annually for a specified period of time.

The Board is responsible for pricing the grain, and the price is not specified until 3 to 4 months before delivery. The usual pricing method is to use the average (unweighted) bid price accepted by the Board 1 month before scheduled delivery. If the Board and the importing government cannot agree on price and delivery terms, the agreement is not fulfilled.

The government has multiyear bilateral agreements with Algeria, North Korea, and the People's Republic of China. The U.S. Agricultural Attache reported that China purchased 65,249

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metric tons of bread wheat and 106,623 tons of corn, and Algeria purchased 102,718 tons of durum wheat in 1975. No grains were reported delivered to North Korea. According to the trade, Argentina has not committed itself to selling any 1976 grain to these countries.

Under 1-year bilateral agreements, the Board sold Paraguay 43,995 metric tons of bread wheat and Libya 77,093 tons of bread wheat, 65,265 tons of durum wheat, and 12,798 tons of corn in 1975 (corn was not a specified grain in Libya's bilateral agreement). One trade source believes the Board has made the following government-to-government commitments as of December 15, 1975.

<u>Country</u>	<u>Bread wheat</u>	<u>Durum wheat</u>	<u>Corn</u>	<u>Sorghum</u>
	----- (metric tons) -----			
Brazil	140,000			
Chile	65,000			
Paraguay	85,000			
Mexico			100,000	
Cuba			120,000	
Libya	160,000	90,000		
Venezuela	<u>200,000</u>	-----	<u>100,000</u>	<u>100,000</u>
Total	<u>650,000</u>	<u>90,000</u>	<u>320,000</u>	<u>100,000</u>

#### Tenders

At 3 p.m. every Tuesday, Wednesday, and Thursday, the Board in public session opens bidding for offers of 200,000 metric tons of grain. Written bids are read, and the Board is authorized to make counter offers. The bidder has 48 hours to consider the Board's counter offer. Frequently, no sales are transacted.

Only national firms and cooperatives may act as agents of the National Grain Board in negotiating and submitting bids of foreign buyers to the Board. For this service, the Board pays a commission on sales of three-tenths of one percent for companies and about five-tenths of one percent for cooperatives. National firms are those that are 80 percent nationally owned, have stock registered with the Board, are managed by Argentinians, are clear of any arrangement to repatriate capital with international companies, and have no link to another firm which would own 50 percent of their capital. Affiliates of major international grain companies are not excluded from acting as agents for parent companies.

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Most of the foreign bidders appear to be major international grain companies 1/ and Italian commodity traders. Between June and December 1975, for example, trade sources stated their belief that national companies made about 83 percent of the bids accepted, for a half million tons of wheat, on behalf of two international companies to fulfill sales contracts with the Soviet Union. These contracts allow international grain companies to choose the source of the grain and are referred to as optional-origin clause contracts. A national firm acting as agent for both the Board and an international grain company will also receive a commission or a share of the profit of the sales from the international grain company.

One national firm said it had established a foreign operation to submit bids to the Board, under which it acted as an agent both of the Board and of itself. When bids are submitted, it is difficult to establish the relationship between the Argentine agent and the foreign buyer. For example, one international grain company was using at least two Argentine agents. One agent listed a Spanish buyer on the bids and disclaimed any relationship with this international grain company. The other agent stated that he had dealt with the Board for the international company but was not the exclusive Argentine agent for the company.

#### Direct negotiations

National firms and cooperatives may negotiate with the Board as agents of foreign buyers. The details of these negotiations and the resulting sales are not made public. It appears that the foreign buyers are international grain firms, Italian commodity traders, and foreign cooperatives.

One official of a cooperative contends that the Board has misinterpreted the relevant provisions of presidential decree 704 governing direct negotiations. His contention is that the legislature intended to favor Argentine firms and cooperatives by permitting them to buy grain from the Board for their own account through direct negotiations. Such an interpretation would appear to permit national firms and cooperatives to compete with international grain firms in world markets and give them the opportunity for speculative profits on sales of Argentinian grains.

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1/ Major international grain companies include Cargill, Cook, Continental, and Bunge.

There is a great deal of skepticism among Argentine grain traders about the past record of the Board in direct negotiations, when allegations of illegal payments to Board officers and employees were widespread. Two firms claimed that foreign buyers paid former Board officials \$1 dollar a metric ton over the directly negotiated price. A special legislative committee investigated such allegations but issued no report.

### Supply management and marketing strategy

Criticisms of Board management of export sales relate largely to supply management and lack of marketing strategy. Exporters claim the Board did not know how much grain was available for export, despite its computerized inventory control system. They cited two examples of inventory mismanagement.

--Last year the Board negotiated the substitution of 300,000 tons of sorghum for 200,000 tons of corn ordered by Mexico because it believed it was out of corn. The Board ended the year with a 100,000 ton surplus of corn.

--As a result of the Mexican substitution, the Board oversold 300,000 tons of sorghum and was forced to postpone deliveries from May to October and thus incurred substantial costs to buyers.

It is not entirely certain that these management problems resulted from the Board's lack of awareness of its own inventory position. It is also likely that parallel market production, storage, and sales operations created confusion in aggregating export deliveries at terminal facilities, resulting in corn being exported in greater amounts than production permitted or than was legal if Board export commitments were to be met.

The trade has also lamented the apparent absence of a Board strategy for marketing Argentine grains. This year, with grain already entering the market while last year's reserves remain in elevators, the Board may face a price-breaking quantity of Argentine grains at a time when international prices are weakening. According to private wheat traders, the Board has not sold 2.2 million tons of the minimum 3.4 million tons available for export. One exporter believes that at least 500,000 tons more of wheat should have been committed to export by the end of calendar year 1975 to maximize Argentina's return on exports.

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The Board apparently believed the decline in international grain prices would not continue. It was not accepting tenders below world market prices nor offering attractive long-term price agreements in direct negotiations with foreign buyers. One trader contends that this is because the Minister of Economy has been attempting to maximize export sales through bilateral agreements rather than through tenders or direct negotiations. Others believe it is because Grain Board administrators were uncertain as a result of legislative investigations and because they wanted to avoid being second-guessed on export sales contracts.

The Board has also been criticized by some in the trade for requiring a 1-percent penalty on alterations of export declarations. According to one source, about 70 percent of all grain exported was involved in a change of destination after being shipped. Only about 30 percent of these destination changes were reported by the trade. The Board recently modified its declaration of destination requirements, reducing the notification period from 3 weeks to 2 days prior to loading. The reported rationale for these controls is to permit the government to preclude exports to countries with which it is attempting to negotiate bilateral sales agreements.

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CHAPTER 3

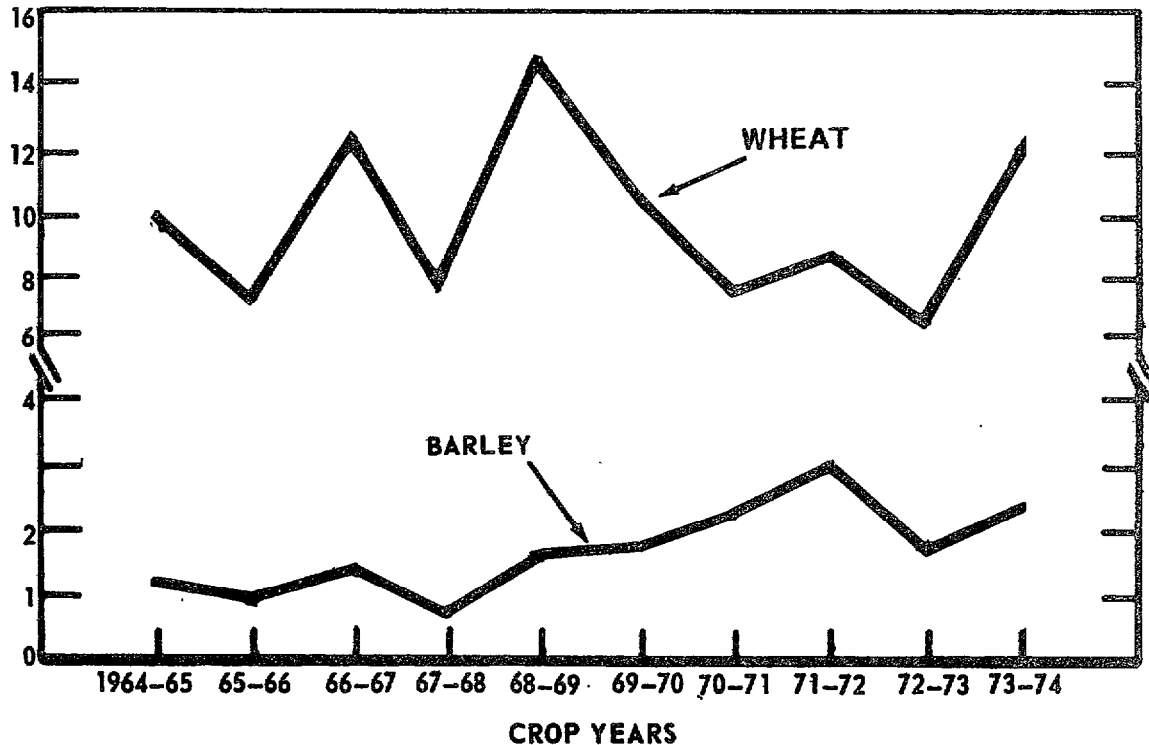
AUSTRALIA

INTRODUCTION

A major policy objective of the Commonwealth Government of Australia is to promote stability in rural industries by establishing orderly marketing arrangements, supporting wheat stabilization fund prices, protecting growers from market fluctuations, and providing access to financing.

Wheat is Australia's most important crop in terms of acreage planted, production, and value. Barley is its second largest grain crop.

**WHEAT AND BARLEY PRODUCTION  
MILLIONS OF METRIC TONS**



Wheat and barley are sown in the autumn and harvested in late spring or early summer. Because barley can be sown later in the season, many producers increase barley plantings when world wheat prices are down, poor weather conditions prevent planting of wheat, or wheat delivery quotas are in effect.

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Production varies considerably because of inconsistent rainfall throughout the vast grain-producing areas. An Australian official stated that Australia's wheat production was 60 percent more variable than that of the United States and Canada.

### GRAIN BOARDS

All wheat produced and marketed in the Commonwealth is purchased and sold by the Australian Wheat Board, which makes all day-to-day marketing decisions. Coarse grains, such as barley, are marketed by state boards or voluntary marketing organizations.

#### The Wheat Board

The Wheat Board is constituted under complementary federal and state legislation and is controlled by the producers, who hold 10 of the 14 director positions.

The Board had its origin as part of the government's emergency powers in World War II and acted as the government's agent in receiving, handling, and marketing all wheat compulsorily acquired from producers. When the government's emergency powers ended in 1948, producers elected to continue the Wheat Board, and complementary federal and state legislation was enacted.

#### Barley boards

A variety of state statutory boards and voluntary grower organizations handle marketing of the major coarse grains. Barley is the chief coarse grain, and the Australian Barley Board was established in 1939 under complementary legislation by Victoria and South Australia, the two states which account for most of the production. The arrangement was extended in 1948 when producers voted to continue the Board. The Board acquires and markets all barley produced in these states, except that retained by growers for their own use. As production spread, Queensland, Western Australia, and New South Wales subsequently established barley boards. Tasmania has a voluntary marketing organization.

Barley boards are controlled by barley growers. For example the Australian Barley Board consists of an appointed chairman, who represents the South Australian Government, and three appointees representing South Australian growers, two representing Victoria growers, one representing brewers and maltsters, and one representing the Victorian Government.

## MARKETING OPERATIONS

In recent years, producers have delivered 90 percent of their wheat and about 66 percent of their barley to marketing boards for sale and the balance has been retained on the farm or sold intrastate. Wheat and barley are both pooled by growing season for sale. Specific records are maintained and producers are paid a price per bushel based on the pool's net return from domestic and export sales. When the grain is delivered to bulk-handling authorities 1/, it is weighed and samples are taken to determine grades. Individual producer payments are subject to grade, weight, and transportation adjustments.

Producers are paid a first advance shortly after the grain is delivered to bulk handling authorities. Wheat producers in Western Australia are paid bounties of up to 92 cents 2/ a metric ton due to that State's freight savings to overseas markets. The size of the first advance in relation to the total expected return on sales is controlled by the government. Advances for producers have generally been about 80 percent of final pool returns, wheat advances have varied from about 80 percent to about 55 percent recently. Wheat Board monetary determinations are subject to government political and general economic considerations.

### Price stabilization

Wheat is the only grain under price stabilization. Stabilization plans have guaranteed export prices based on grower costs of production since 1948. The current sixth plan instituted for the 1974-75 crop year replaces the guaranteed price with a stabilization price intended to modify extreme fluctuations in producer returns. The stabilization price has been set at \$2 a bushel for the first growing season and will be adjusted each year according to a formula that relates the stabilization price to world market prices.

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1/ Bulk-handling authorities are S.A. Co-operative Bulk Handling Ltd. in South Australia; Co-operative Bulk Handling Ltd. in Western Australia; State Wheat Board, Queensland; Grain Elevators Board of New South Wales; Grain Elevator Board of Victoria; and Grain Elevator Board of Tasmania.

2/ One Australian dollar is equivalent to approximately \$1.28 in U.S. dollars.

The wheat price stabilization plan is financed through the Wheat Price Stabilization Fund. When export prices are higher than stabilization prices, producers pay the Fund up to 15 cents a bushel on exported wheat or a total of \$30 million annually, whichever is less. On the other hand, when export prices are less than stabilization prices, the producers' pool receives either 15 cents a bushel on exported wheat or a total of \$30 million, whichever is less. The balance in the Fund cannot exceed \$80 million within the 5-year period of the plan.

If the balance of the Fund is not adequate to cover Fund commitments, the government advances money to the Fund to cover the commitment. The maximum annual government contribution is \$30 million and it cannot exceed a total net contribution of \$80 million during the 5-year period of the plan. Government contributions will be repaid to the government from subsequent contributions by producers during the period of the plan. However, if producer contributions at the end of the 5-year plan have not been adequate to repay advances by the government, the government may write off the balance of such advances. During the first five plans, the Government wrote off \$297 million. Any balances in the Fund at the end of the last plan that represents producer contributions will be carried over under the new plan.

Officials said they expected the current world market price to maximize grower contributions to the Fund. Contributions in excess of the \$80 million are to be returned to contributing producers on a first-in, first-out basis.

#### Assistance to producers

The Reserve Bank of Australia advances credit to the Australian Wheat Board and to the various state barley boards which is repayable within 1 year. These credits enable farmers to receive cash advances for much of the value of their crops before sales by the boards. The boards repay the Bank as sales are made. Although no data was available on the amount of credits to the boards, Bank officials stated that current credits were extended at interest rates of about 9.5 to 10 percent, which was below the prime lending rates of major banks in 1975.

Research is being conducted on new grain protection and aeration, fumigation techniques, and strengthening of grain varieties. The government matches contributions by the wheat and barley boards to state research organizations under the guidance of the various state departments of

agriculture. The Wheat Board taxes producers 15 cents a ton for this research, and the barley boards make direct contributions.

All state governments make funds available for rural development, which is basically a state responsibility. These funds are usually part of normal state expenditures and are not significant from the point of view of national agriculture policy. However, the government does provide special financial assistance for purposes of national importance, such as the irrigation projects along the Ord and Murray rivers.

#### Delivery quotas

Australia does not use production or acreage limitations as a control device, but it has at times imposed delivery quotas on producers.

Throughout the 1960s, wheat acreage expanded at a steady rate, doubling within the decade to a peak of 10.8 million hectares in the 1968-69 season. A record 14 million tons were delivered to the Wheat Board that season, and because world stockpiles were high, the Board had a carryover of almost 7.3 million tons. The Wheat Growers Federation recommended to the federal and state governments a system of delivery quotas, and a national quota of 9.7 million tons was established for the 1969-70 harvest. The quota limited the amounts of wheat that producers could deliver to the Board's receiving agents. Quotas were set for the 1970-71 season, because the Board's carryover stocks were still at about the same level. Quotas were again set for the next three seasons, although poor weather conditions limited crops to well below each year's quota. With carryover stocks down to a more acceptable level and favorable marketing conditions prevailing, the Wheat Growers Federation and the government agreed to suspend quotas for the 1975-76 season.

#### Transportation, handling, and storage

Australia has no national rail or highway transportation system. Each state has its own transportation network. Decisions to purchase new rolling stock and to allocate railcar availability are generally made in close coordination with the bulk handling authorities.

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Bulk handling authorities are usually sanctioned by State laws, are normally nonprofit, have no stored capital, and are cooperatives wholly owned by wheat and barley growers. Decisions on allocating storage space and designating receiving centers are referred to various silo committees representing grain growers in local areas. Once the grain has been received, its disposition is controlled by the wheat and barley boards.

Bulk storage capacity for the 1974-75 season totaled 20.6 million tons, of which 17.4 million tons was owned by bulk handling authorities, 2.7 million tons by the Wheat Board, and 385,000 tons by mills. Bunge is the only major international grain company in Australia that owns private storage facilities. Cargill has established storage rights with a private company and uses its facilities in exporting barley and sorghum from Queensland.

#### DOMESTIC SALES

The Wheat Board sells directly to the major domestic buyers, namely, flour mills, stock feed manufacturers, grain traders, and poultry farmers.

Domestic wheat requirements have priority over demands from overseas buyers and have accounted for about a third of wheat production in recent years. The domestic market price of wheat is tied to the growers' costs of production as determined by a Bureau of Agricultural Economics survey. Domestic prices include an amount to cover the extra expense of shipping wheat to Tasmania.

During recent years, domestic prices have been higher than guaranteed prices. For the 1969-70 season, separate prices for wheat for human consumption and stock feed were established. In the 1973-74 season, a basic single price for human consumption and stock feed was established. However, the federal and state governments passed legislation empowering the Board to sell wheat on the local market for industrial and stock feed purposes at prices below those for human consumption but not below guaranteed prices.

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Wheat Prices per Ton

<u>Season</u>	<u>Guaranteed price</u>	<u>Human consumption price</u>	<u>Stock feed price</u>
	(Australian dollars)		
1969-70	\$53.61	\$63.38	\$52.73
1970-71	54.20	63.93	53.28
1971-72	55.78	65.40	54.75
1972-73	55.61	67.63	56.97
1973-74	58.79	71.10	71.10

There is no guaranteed price for barley. Thus, barley prices are affected on a state level by supply and demand, which results in less price uniformity, both domestic and export, for barley than for wheat.

In poor crop years, barley boards ensure that local demand is satisfied before exports are permitted. In the last several years, domestic consumption has averaged about 50 percent of annual production, although actual proportions of trade varied according to changes in output and demand.

INTERNATIONAL MARKETING OF WHEAT

The Australian Wheat Board exports wheat through direct sales to foreign governments and to commercial grain traders. The Australian Government buys wheat from the Board for use in food aid programs.

The average quantity of wheat exported during the 1970-74 period was 7.3 million metric tons. The highest export year was 1971 (9 million tons) and the lowest export year was 1973 (4.3 million tons).

Australia's Department of Agriculture inspects all wheat and barley to ensure that it is free of insects and pests and is fit for export. Inspections are made during each vessel loading, and port facilities and grain terminals are inspected monthly. Actual inspections are made by state employees licensed by and working on behalf of the Department of Agriculture.



### Government-to-government sales

As of November 1975, major agreements with foreign governments were as follows:

<u>Country</u>	<u>Annual amount</u>
People's Republic of China	1.5 to 1.8 million tons
Soviet Union	1.5 million tons
Egypt	1 million tons
Japan	1 million tons

The percent of government-to-government sales varies each year, but it has been about 50 percent when the Board has large exportable surpluses. In times of relative shortages, government-to-government sales account for more than 50 percent of exports.

Government-to-government sales are usually on a free on board basis with the buyer arranging for transportation. Sales prices are negotiated by the Board based on market conditions at the time of sale, and are usually fixed. The Board may also sell wheat on both cost and freight and on cost, insurance, and freight basis. This means the Board becomes the charterer, under the terms of the charter party contract, with the owner of the vessel concerned. A Chartering Committee, which is represented on the Baltic Shipping Exchange in London, charters vessels for the Board.

In December 1975, the Board made several small sales in Asia for which prices were based on future price quotations of the Chicago Board of Trade. As a result, the Board received government authority to hedge these sales in the futures market. Although this was not done, the Board retains the authority and may exercise it in the future. The governmental authority does not allow for large-scale hedging or speculation.

### Commercial sales

The Board sells grain to major world grain traders 1/, who in turn sell it to foreign governments and foreign end users. The wheat sold to world grain traders is the residual amount after government-to-government sales and contributions made to Australia's food aid program. The

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1/ Continental, Cook, Cargill, Bunge, and Dreyfus.

private trade usually buys wheat for cash on a free on board basis at a price announced by the Board. The Board rarely sells wheat on credit especially in periods of tight supply. However, private traders will extend credit or arrange financing for the buyer in order to complete a sale.

Due to competitive pressures from other supplying countries, the Board has recently given the private trade additional marketing flexibility by allowing it to defer the final pricing of contracts to any time between approved sales and bill of lading dates, periods of usually between 2 to 3 months. Deferred pricing is also extended by the trader to the ultimate buyer (end user or foreign purchasing agent).

If the user buys at a fixed price and the trader at a deferred price, the trader is expecting wheat prices to fall during the deferred pricing period. Conversely, if the user buys at a deferred price and the trader at a fixed price, the trader is counting on prices to rise. On occasion, the trader will hedge his purchase in the Chicago futures market.

The central headquarters of international grain companies will normally decide when and how wheat is to be purchased. One trader stated that its Australian office would advise its U.S. office before getting into a risk position and would not move unless an affirmative decision was made by the U.S. office.

Exchange rate profits are also important to international companies. In this regard, the exporter pays the Board in Australian dollars and the buyer may pay the trader in U.S. dollars. Therefore, the trader speculates on exchange rate fluctuations.

Since the reintroduction of deferred pricing, one trader stated that it is doing more chartering for buyers. This trader believes that a private trader has an advantage over the Board because only the trader will charter before accepting freight orders. Traders also accept freight orders before chartering, believing that freight rates will fall.

From time to time, the Board has granted exclusive trading rights to private traders for certain countries or markets. As of December 1975, only one such agreement was in force, and it was expected to be considered for renewal shortly. The Board has granted exclusive marketing agreements in recognition of a trader's opening up

new markets for Australian wheat. After the markets are established, and when other traders demonstrate sales potential, the Board usually terminates the exclusive arrangement.

Japanese sales are also uniquely handled. The Japanese Food Agency, Japan's official purchasing agency, buys wheat under a bid-tendering system. These bids are theoretically open to all traders but in practice they are available only to Japanese traders.

The Board will not deal directly with Japanese traders. This action is most likely in retaliation for the exclusionist practices of the Japanese Food Agency. Therefore, the Board uses international grain companies as agents while the Food Agency uses Japanese traders as agents. Japanese traders do deal directly with the Board for sales to countries other than Japan.

#### Food aid program

The Department of Foreign Affairs purchases wheat for food aid programs from the Board at prevailing market prices in accordance with the terms of the International Wheat Agreement's Food Aid Convention. Australia's pledge is 225,000 tons a year.

#### INTERNATIONAL MARKETING OF BARLEY

Barley exports for 1970 through 1974 averaged about 1.1 million metric tons. The highest export year was 1972 (1.7 million tons) and the lowest was 1973 (676,000 tons).

Traditional barley markets are the European Community, Taiwan, and Japan. The Japanese market receives about half of Australia's barley exports.

#### Australian Barley Board

The Australian Barley Board, which handles 50 percent of barley exports, uses exclusive agents for sales to Japan and Taiwan. The Japanese agent has had a 20-year relationship with the Board and tells it informally (no written agreement exists) each year how much grain is needed during the year. According to Board officials, Japanese requirements have priority over other foreign customers in periods of tight supply.

The Board uses four London brokerage houses as agents for exports to the United Kingdom and Western Europe. All buyers, including the private trade, must go through these agents. The Board also negotiates sales directly with the Soviet Union.

To prevent competition and to protect its agents, the Board requires that contracts show destinations. Except for the exclusions noted above, the Board will sell to private traders that export to other countries.

#### Western Australian Barley Board

Japan and Taiwan are the Western Australian Barley Board's major customers. This Board has an exclusive agreement with a Japanese company to provide Japan with about 150,000 metric tons of barley annually. It also uses one of the four Australian Barley Board agents as its agent in sales to Western Europe.

#### Queensland Barley Board

The Queensland Barley Board sells barley to global destinations, except Japan and the Soviet Union, through international grain companies. A Japanese trading company receives an annual barley quota of approximately 100,000 metric tons for Japan.

#### New South Wales Barley Board

The New South Wales Barley Board, the newest of the five barley boards, has had only two marketing years; 1973-74 when it sold 82,000 metric tons to Japan and 1974-75 when it sold about 200,000 metric tons, half of it to Japan. It has granted Bunge, one of the major international grain companies, exclusive authority in northern New South Wales to collect and sell barley. However, other traders noted that not all barley produced in the state is handled through this Board. One trader stated that he purchased grain directly from New South Wales producers and trucked it to Brisbane, Queensland, where it is stored in a private grain elevator before export.

A Board official stated that the Board will not attempt to stop these sales through court action but will try to outperform the private companies. One trader stated that the federal government is siding with the private companies because it issues export permits to companies participating in non-board exports.

## Private exporters

Major international grain companies will purchase barley from various boards and, in turn, sell it to government buying agencies and end users. However, the residual amount of barley available to these companies is limited because of the exclusive practices of the various barley boards with Japanese trading companies and London brokerage houses.

To a limited extent, barley boards are in competition with each other, and private companies tend to play them against each other. Traders recognize that barley boards do not have the financial strength of the Wheat Board and can't hold unsold barley for long periods of time. Nevertheless, it is considered unlikely by both trade and board officials that state barley boards will merge into one national board. However, because of the competition, the Australian Barley Coordinating Committee was formed by the five boards to provide them with price and market guidelines.

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## CHAPTER 4

### CANADA

#### INTRODUCTION

The present Canadian central grain marketing system evolved out of a long struggle by prairie farmers to grow and market grain at a fair return. As a result, it still enjoys widespread support among Canadian producers.

Settlement of the Canadian prairies began in the latter half of the 19th century, and by 1887 Canada had country elevators, a railroad, a grain terminal on the Great Lakes, and the Winnipeg Grain Exchange. Farmers had shipping problems with the railroad monopoly almost from the start and later with elevator monopolies granted by the railroads.

The Manitoba Grain Act of 1900, the first in a long series of legislation to aid grain growers, gave farmers the right to ship their own grain and to load from their own wagons or warehouses, rather than having to sell to the elevators. It established the still-observed principle, that all farmers have a right to railcars for moving their grain to market. Producers had further problems in trying to ship bumper crops in the early 1900s, and in 1906 they formed the first cooperative.

In 1912, the first Canada Grain Act, known as the Magna Carta of grain producers, established what is now the Grain Commission and provided for government control over grain licensing, inspection, and grading.

In the war years of 1917 and 1918, the Canadian government took over wheat marketing, and in 1919 the first Wheat Board was established. Although the wartime Board sold only one year's crop, it incorporated the concepts of initial and final payments, pricing to maximize producer return, and monopoly marketing.

Producers wanted the Wheat Board retained after the war, but could not persuade the government to do so. Therefore, they began forming provincial cooperatives and pooling their crops. In 1925, the National Railway Act was passed, reinstating the earlier grain hauling rates of 1897 and applying them to all prairie grains moving to export points.

The prairie provincial wheat pools were successfully formed in 1924. They provided for pooling, made initial payments, and prospered--until the crash of 1929 when they temporarily went into receivership. In the 1930s, most wheat growers suffered great financial hardship, but it was during this time, that a national Wheat Board was established. The Wheat Board was also given control of the marketing of oats and barley, thereby taking on the essential features of the current Board system.

In the meantime, the prairie wheat pools had prospered, paid off their debts, and become politically and financially powerful. Several Board Commissioners were pool members, and the pools were influential in all aspects of grain policy.

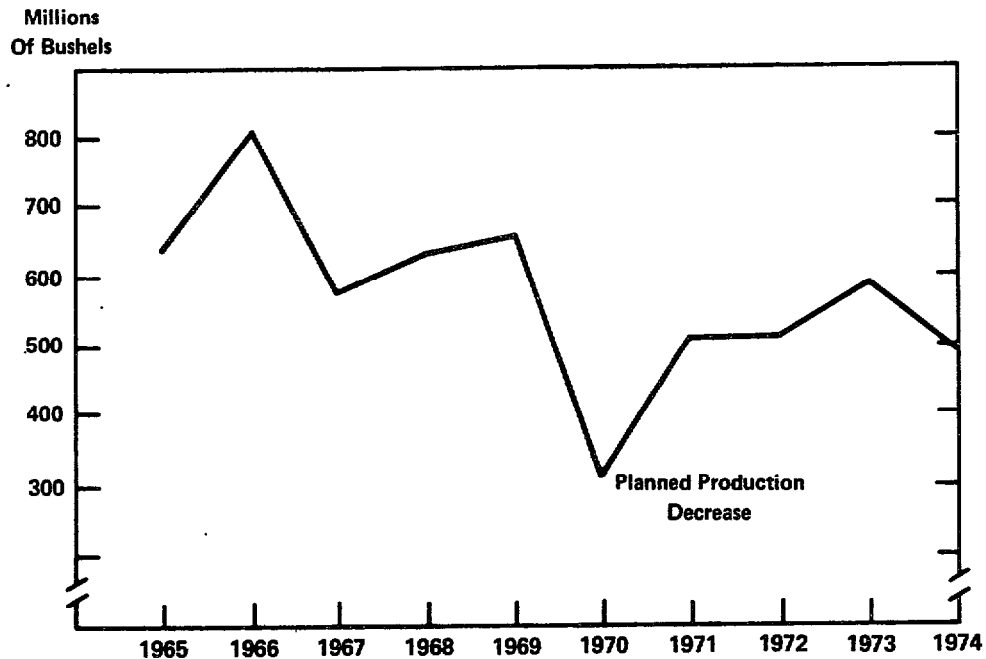
In 1972, the pools bought out one of their main Canadian competitors, a private firm, and thereby achieved a near monopoly position. They also had become very big businesses, although they retained their traditional socialist outlook. The Saskatchewan Wheat Pool, the largest of the pools, has assets of about \$500 million and is a conglomerate which not only operates elevators but also handles fertilizer, chemicals, feeds, livestock, flour mills, oilseed crushing, malting, publishing, and insurance.

#### GRAIN PRODUCTION

Essentially, Canada grows only one variety of spring wheat and a lesser amount of barley in a relatively confined geographical area. Almost the entire crop is exported through Vancouver on the West Coast and Thunder Bay on the Great Lakes. Less than 15 percent is used for domestic consumption.

Wheat production, yield, and acreage all peaked in 1966, and production has not approached that level since, despite the dramatic price rise from \$2 a bushel in 1972 to \$5 a bushel in 1974. Even the 1928 crop of some 540 million bushels exceeded several recent crops, and the 1928 yield of about 24 bushels an acre was only slightly below the current 10-year average.

## CANADIAN WHEAT PRODUCTION



Canada's total prairie area is only about 85 million acres and cannot be easily expanded. It is arid land that must be kept about one-third fallow in summer. The growing season is only about 115 days, so crops can be exposed to severe weather.

Nonetheless, many grain growers and agronomists believe production has potential to be increased by 25 to 30 percent. A Saskatchewan Wheat Pool publication stated that Canada could easily produce a billion bushels of wheat if farmers were assured of a market.

Production is further limited by the Canadian Department of Agriculture's rigid regulation of what seed may be used in growing export wheat. New seed is licensed in Canada only after 6 years of rigorous tests in Canadian fields and laboratories and international collaboration tests for quality. This effectively limits varieties and yield but does help to maintain Canada's traditional high standards of quality.

In 1971, the Wheat Board's grain marketing review board questioned Canada's reliance on strictly high quality milling wheat (a static market) when the expanding demand seemed to be for lower quality utility wheats, which also have higher yields. This criticism has been echoed by the Grains Council, an independent industry group.

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## THE MARKETING SYSTEM

The Wheat Board is the sole marketing authority for prairie grown wheat, oats, and barley sold for export, and for wheat sold to domestic millers. A separate system markets small amounts of grain grown in eastern Canada.

The Grain Commission inspects, grades, and regulates grain throughout its movement in the system.

### Wheat Board

The Wheat Board operates under the authority of the Canadian Wheat Board Act of 1935 as an independent Crown Agency. It is headed by three or five Commissioners appointed for indefinite terms by the government; employs a staff of about 600; and currently has an operating budget of about \$9 million a year, financed directly from sales.

The Board has complete authority to sell where, when, and at whatever price it chooses. Specific sales information is almost never disclosed. The Board reports the results of its operations annually to the public and monthly to the responsible government minister. It is strictly a producers' organization, with a charter to maximize returns to the growers--to sell all it can at the highest possible price. It is also charged to ensure that each farmer has equal access to the market.

### Grain Commission

The Grain Commission, a Crown Corporation, consists of three commissioners and a staff of about 1,000, including 250 official inspectors and their assistants. It reports to Parliament through the Minister of Agriculture and is completely independent of the Wheat Board.

The Commission sets maximum handling fees, licenses elevators, inspects and grades grain, and imposes penalties for violations. Strict regulations limit the movement or diversion of grain that has not been inspected. The Commission also supervises all weigh stations, and any overages of Board grains (wheat, oats, and barley, other than for domestic feed) automatically become the property of the Wheat Board, while overages of non-Board grains become the property of the Commission. The system is generally designed to eliminate unauthorized blending or manipulation of grains to the detriment of the producer or the buyer.

As a result, the grain industry has been able to maintain the integrity of its "Certificate Final" and to successfully export grain solely on the basis of its own certificate of grade and weight. However, these quality controls have been criticized on the grounds that the regulators are removed from marketing and that some regulations are unrelated to customer desires.

Also, blending various wheat grades to satisfy specific customer requirements causes a problem. In world trade, grain blending is seen as a basic marketing tool, but Canada allows it only under special circumstances. We were told that higher quality wheat was sometimes shipped to satisfy a contract for lower quality. This results in a loss to farmers but is apparently necessary in Canada when the specified grade is unavailable because blending with lower grades is not allowed.

The Grain Commission is also the principal source of statistics on grain storage and handling. It has access to computerized data as grain moves through the system and compiles and publishes comprehensive bulletins on the storage and movement of grain into the export and domestic market. In this way the Wheat Board, when it is negotiating sales, usually gets current and accurate information on Canada's exact supply position. Somewhat less reliable is the data on production and on-farm storage, which is compiled both by the Wheat Board and by Statistics Canada, the government census office. For technical reasons, the two organizations are often at variance and a certain margin of error must be allowed for.

About 2.5 million tons a year of U.S. grains (1.2 million tons of it in wheat) and oilseed is transshipped through Canada, and Canadian transfer elevators are used for the purpose. The Canadian Grain Commission carefully segregates these U.S. commodities from the Canadian grain, thus preserving the grading integrity of the latter.

#### ACQUISITION OF GRAIN

Western Canadian farmers can sell Board grains only to the Wheat Board, and only in the quantities called for by the Board under a quota system. Before seeding takes place, the Wheat Board announces minimum aggregate delivery quotas for Board and non-Board grains and suggests total crop acreages and initial prices for Board grains.

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The initial price is set by the government each year and acts as a floor price to the farmer since the government will compensate the Board for any losses incurred in meeting it. With this information, the producer notifies the Board of the acreage he will devote to each grain. The producer chooses the grains and amounts to plant. Once the Board is aware of aggregate planting intentions, it converts these amounts into delivery quotas per acre for each grain and for grades of grain if necessary. Each producer is then issued a delivery permit book (about 160,000 were issued in 1975) specifying the acreage he has assigned to various grains. All deliveries to the elevators are recorded in the permit books, which are used to control Board purchases under the quota system.

On August 1, 1973, for example, the Board's quota was 5 bushels per acre for spring wheat and 10 bushels for barley. A grower whose permit book showed 100 acres in wheat and 50 in barley could then deliver 500 bushels of each. Depending on market requirements and available elevator space, the Board may later increase or even remove quotas on certain grains or grades of grain. It can also confine deliveries to specified grades or areas.

The 1969 Canadian Federal Task Force on Agriculture criticized the quota system on the ground that it encourages (1) expansion of acreage rather than yield, since quotas are based on acreage, and (2) a crop pattern based on quotas rather than on crops best suited to a given area. For example, quotas set for barley in a given year might encourage barley to be grown in all areas, not just those best suited to barley production.

Farmers may deliver grains to the Board at the primary elevator in accordance with the quotas and receive the prescribed initial price, less handling and transportation costs to the export terminal. Payments for grain are made by the elevator operators on behalf of the Wheat Board. The Board takes possession of the grain at this point and controls it through the system to final sale. All grains delivered to the Board are pooled by grade for eventual sale. Sale proceeds, less costs, are then returned to the farmers in the form of final payments per bushel, which gives all farmers an identical price, by grade, for their grain.

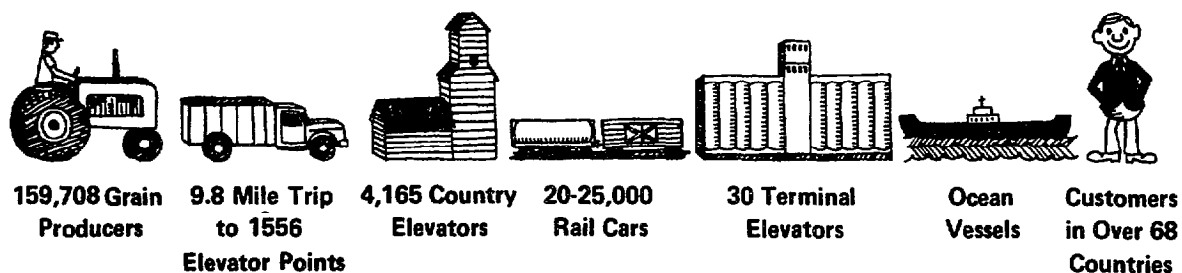
Grain in excess of Wheat Board quotas or that the farmer does not choose to deliver is stored on the farm or sold for domestic feed. Currently, about 25 percent of Canada's wheat stocks, some 96 million bushels, are in on-farm storage; this figure has been much higher in periods of large carryovers.

### MOVEMENT OF GRAIN

Grain moves from the primary elevators almost entirely in box cars, over a network of more than 21,000 miles of main and branch line track, to West Coast and Great Lakes ports. The National Transportation Act requires the two railroads, Canadian National and Canadian Pacific, to furnish cars for moving grain. The statutory rate has been in effect since 1897 and results in transport costs of less than 25 percent of U.S. railroad charges for similar shipments.

All elevators that handle Board grains must be licensed by the government, which prescribes the maximum rates for grain handling, and must act as agents of the Board, which owns no elevators of its own. Farm cooperatives own and operate about 80 percent of the primary and terminal elevators. Canada's more than 4,000 primary elevators have an average capacity of 120,000 bushels and a turnover rate of only 2 or 3 times a year. The international companies have only four elevators at export points. Cargill Grain Company, Limited, owns one terminal elevator at Thunder Bay and two transfer elevators (which receive, weigh and store grain previously processed) at Baie Comeau, Quebec. Bunge of Canada, Limited, owns a transfer elevator in Quebec.

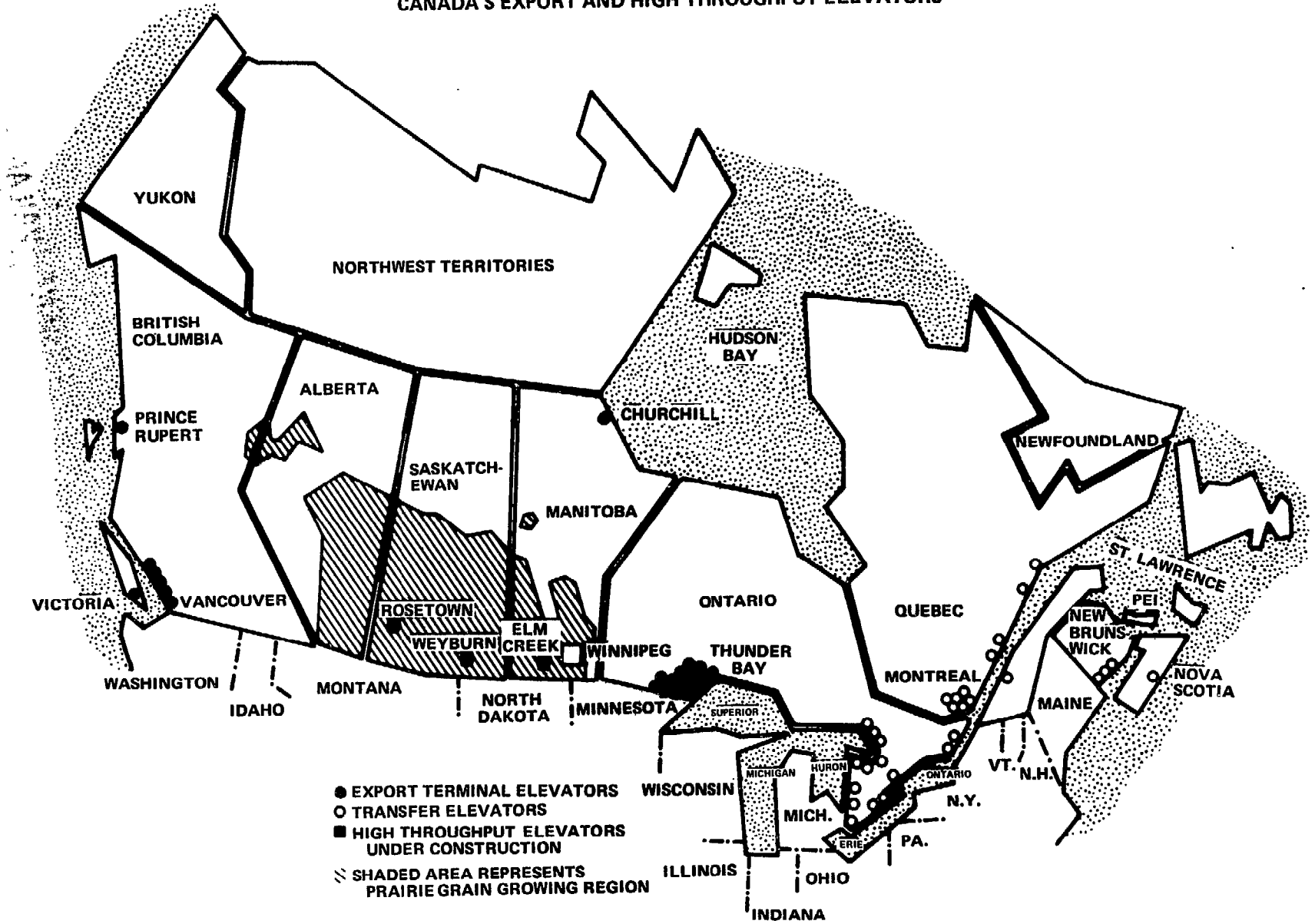
### THE MOVEMENT OF GRAIN FROM PRODUCER TO CUSTOMER



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# CANADA'S EXPORT AND HIGH THROUGHPUT ELEVATORS

36



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Delivery of grain from the prairies to the export points is an essential and sometimes limiting factor in marketing, and the delivery system has recently been criticized for its inefficiencies and for its cost--typically about \$300 million a year.

The contrast with the U.S. delivery system is striking. In the United States, the trend is toward inland terminals, capable of handling 400,000 to 2 million bushels of grain and with turnover rates of 10 to 15 times a year. Grain is cleaned to grade and loaded into hoppers of 100-car trains at a rate of 20,000 to 30,000 bushels an hour.

### Delivery system

Underlying most of the grain industry's rail problems is the railroads' contention that they cannot make a profit in hauling grain. They say that the statutory rates are noncompensatory, even with government subsidies to maintain certain branch lines used mostly to serve primary elevators. Therefore, the railroads have made no new investments in grain-handling equipment or track. It was not until 1972 that Canada acquired its first 2,000 covered hopper cars, and those were provided by the government at a cost of \$46 million. Another 4,000 cars are on order by the government for delivery in 1976. The hoppers, however, have proven too heavy to operate over many of the branch lines, and about two-thirds of the country elevators lack suitable loading facilities for them.

A more fundamental problem is that the railroads lack incentive to improve efficiency even with existing equipment. They maintain that at current rates the more grain they haul, the more they lose. They point out that, to the extent they sustain unsubsidized losses, other shippers in effect are subsidizing grain by paying higher rates for their commodities.

Government subsidies cover losses incurred for grain shipments originating or terminating on branch lines. According to a Grains Council study, subsidies amounted to about \$34 million in 1971; rail officials estimate current subsidies to be quite a bit higher.

The low rates also discourage efficient uses of the elevator system. In the United States, elevators are designed to minimize higher, cost-based rail rates through increased loading efficiency. In Canada, where

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trucking is used very little, grain is shipped to port before cleaning, and train turnaround times are relatively long. Unit trains, common in the United States, are not used at all, and more than 1,500 delivery points are served by railcars. Thus, it is possible that although producers may benefit in the short run from lower rates they may lose in the long-run from the increased costs of the total system, slow delivery, higher carrying charges, and lost sales.

Canadian rail rates are presently under investigation by a federal commission, the latest of a long series of such rate inquiries since 1928. This time, though, the government is committed to making changes, although producer benefits from the current rates are to be retained in some form.

A second commission is presently attempting to rationalize branch line abandonment. The branch lines serving many of the primary elevators are thought to be uneconomical, but their closure is often a highly charged political issue.

#### HANDLING OF GRAIN

The country elevator system has also received much attention, and certain changes are underway. The concept of large, efficient inland terminals (or high through-put elevators) was adopted by a group of 1,700 farmers who formed the Weyburn Terminal Association and invested \$1,000 each to build a \$4 million, 1-million bushel capacity terminal at Weyburn, Saskatchewan, to begin operation in March 1976. High through-put elevators are also being constructed at a cost of \$4 million each by one of the large U.S.-based international grain companies (Cargill) at Elm Creek, Manitoba, and Rosetown, Saskatchewan.

The four prairie cooperatives, which handle about 80 percent of the business, are not committed to the larger terminals. Officials of the Saskatchewan Wheat Pool state that they have reduced their elevator points from 1,000 to 700, with an eventual goal of between 350 and 400. The reduction is part of a general trend in Canada involving sales, mergers, closures, and trades between companies serving different points ("saw-offs"). The latter, in which companies trade competing elevators at two delivery points, is a trend toward monopoly at the delivery point and is not entirely welcomed by farmers. The Saskatchewan Pool is building new elevators, with

only about a 50,000-bushel capacity (with 100,000 bushel cribbed storage annexes). The Pool has determined that members do not want to haul grain more than 25 miles. The planned high through-put elevators are predicated on serving a 25-mile radius or further, with projected lower rates as an incentive for the longer haul. It was only in the last year that the Grain Commission did away with what were, in effect, set elevator rates in favor of ceilings (now 10 1/2 cents a bushel). Since current rates are all filed under the maximum ceiling they are, in effect, free market rates.

The Saskatchewan Pool has opposed variable elevator rates, opting instead for a single, systemwide rate for wheat and barley. The high through-put elevators favor cost-based rates, where inefficient elevators would have to charge more. This reflects a difference in philosophy with the Pool stressing equity to all producers. It sees the trend to centralized grain handling as emphasizing return on investment to companies at the expense of service to producers.

Some large producers, however, claim the pools have a vested interest in the current system and are out of touch with growers. These critics point out that, during the period of the Wheat Reserves Act (before 1973), when the government was paying storage on all grain over 178 million bushels, the pools earned 39 to 54 percent of their revenue from storage. They complain that the whole system was oriented to storing grain, not to moving it. Since the government payments were based on grain in storage on July 31, the elevators were always filled on that date and remained congested through most of the fall. The Wheat Reserves Act expired in 1973, when storage fell below 178 million bushels, but its effect has lingered on. It is also pointed out that the pools control most of the existing export terminals, so they naturally oppose the inland terminal concept.

The success or failure of the high through-put terminals will depend largely on farmer acceptance, but also on further changes to the system. For example, the Wheat Board's car allocation method of assigning railcars to elevators on the basis of past business would penalize the new, larger terminals. Changes to the elevator system will also obviously be affected by the results of a federal commission inquiry. The United Grain Growers cooperative has taken a middle position on inland terminals, recognizing their efficiency but doubting their practicality under Canada's present environment.

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## Domestic marketing

The Board is the sole domestic agent for Canadian milling wheat. Its price to domestic millers is regulated by the government, and in 1975 it was set at \$3.25 a bushel. The government compensates the Board for the difference between the set price and the Board's average monthly export sales price, up to a ceiling of \$5 a bushel. Beyond this \$5 ceiling the Board, and ultimately the producer, would be subsidizing the millers to the extent of the difference. Conversely, if the export price falls below \$3.25, the millers would, in effect, be subsidizing the producers. The system stabilizes domestic wheat prices and is considered a good political solution for that reason. Domestic consumption has recently amounted to about 65 million bushels a year, equal to only 15 percent of Canada's normal total sales.

Since Canada has a two-tier system to stabilize domestic wheat prices, the Board does not have to worry about the effect of high export prices on domestic prices.

## INTERNATIONAL MARKETING

The Wheat Board is the sole export marketing agent for prairie grown wheat, oats, and barley. As such, it controls almost a fifth of the world's wheat exports and sizable barley exports (oats are grown mostly for domestic consumption).

Private export trade has traditionally been shared by the firms of Cargill, Continental, Dreyfus, Bunge, and, to a lesser extent, by smaller specialty firms serving particular markets and a few domestic firms. In 1970 the large cooperatives formed their own export company, XCAN, and in 1974 the United Grain Growers pulled out of XCAN to form another independent export firm. In the past year, Cook Industries has also become an exporter.

The Wheat Board makes all direct export sales on a free on board basis. If the buyer desires, he may select from a list of approved Board agents to ship the grain for him. The Board makes the list available to the buyer but does not become involved in agent selection. It does require, however, that all agents maintain a seat on the Winnipeg Commodity Exchange (for East Coast agents) or Vancouver Grain Exchange (for West Coast agents) and satisfy its requirements for financial responsibility,

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business standing, and integrity. The terms of the shipping arrangement are made between agent and buyer and are confidential.

If private grain exporters, which are registered agents of the Board, sell on their own account, the price and terms for delivered shipments are between buyers and exporters. Most sales that involve shipping are made by the international grain companies because the local firms do not have the facilities. Except for the requirement to purchase from the Board, commercial sales are made without restriction, although the Board can limit sales to specific destinations in periods of tight supply. Any control by the Board over these shipments is informal. However, an exporter acting contrary to Board wishes could lose agent status, but to date this has never occurred.

The Wheat Board recognizes the need for the private trade, especially for small markets and for worldwide market intelligence. The companies state that they value their good relations with the Board and endeavor to keep it fully informed on their operations in Canada.

Credit sales of up to 3 years are financed by the Board through commercial loans guaranteed by the government; they have been used regularly, for example, in sales to the People's Republic of China. Credit in excess of 3 years is extended directly by the government, usually on concessional terms. In sales to Brazil, the Wheat Board entered into an agreement in December 1972 to deliver 22 million bushels of wheat over a 3 to 4 year period. The loan is repayable over 10 years at 2-7/8 percent interest, with a 2-year grace period. More typically the credit terms and interest rates of Board agreements are not announced.

In February 1974, Canada pledged 1 million metric tons of wheat a year for 1975 and 1976 to the World Food Program. All of these shipments are strictly grants and are made to the neediest nations, based on per capita income and food deficit position. The World Food Program allocates 40 percent of the pledge, and 60 percent is allocated under bilateral agreements monitored by the Program. The wheat is purchased by the Canadian Economic Development Agency from the Wheat Board, at the Board's asking price.

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## Marketing decisions and pricing

In 1968 Canada's wheat exports fell about 50 percent below their 1965 peak. In the following year, wheat carryover stocks approached a record 1 billion bushels, equivalent to a 2-year supply. Canada's share of the export market dropped within a few years from 25 to 18 percent and with 6 percent of the world's wheat production, it held about 40 percent of the world's carryover stocks.

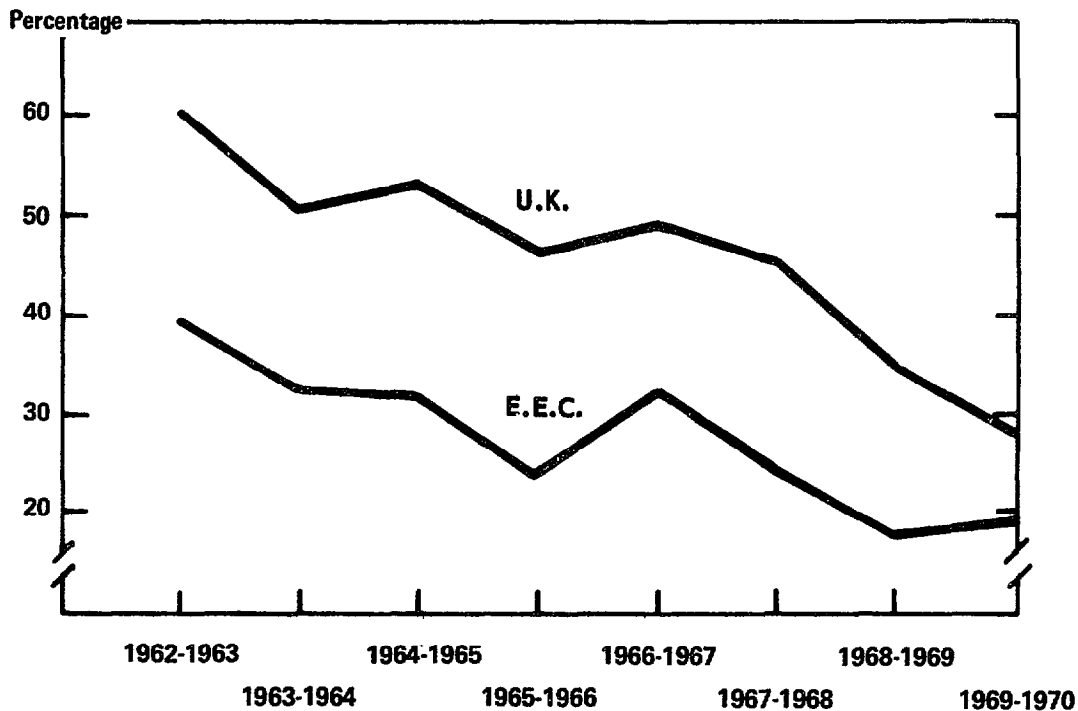
In 1970, production was cut in half, and a subsequent pickup in world demand, especially by the Soviet Union, reduced the glut, but not before the entire marketing system came under intense examination. Several independent inquiries were undertaken and a number of reports issued, all highly critical. 1/ They concluded generally that traditional markets had been seriously eroded in the 1960s by Canada's failure to stay abreast of changing market conditions and by an essentially noncompetitive pricing policy.

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1/ Canadian Agriculture in the Seventies, report of the Federal Task Force on Agriculture, Dec. 1969; Future Market Outlets for Canadian Wheat and Other Grains, Special Study No. 11, by S.C. Hudson, prepared for the Economic Council of Canada, January 1970; The Market for Canadian Grains in the European Economic Community and the United Kingdom, Mission Report, by the Canadian Grain Council, October 1971; The Report of the Canadian Grain Marketing Review Committee by the Canadian Grain Marketing Review Committee, Jan. 12, 1971.

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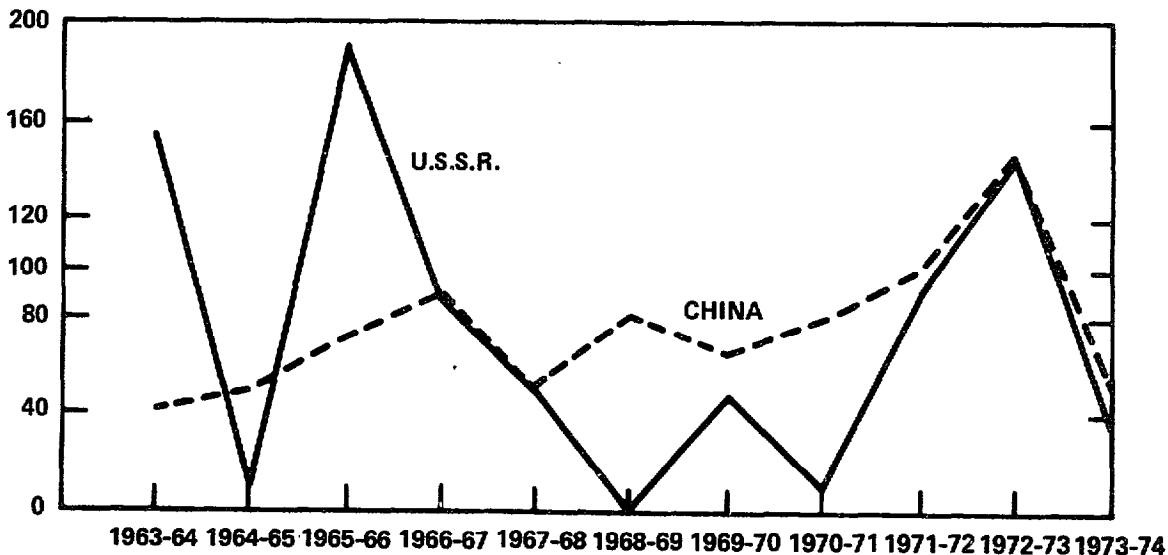
**CANADA'S DECLINING SHARE OF TRADITIONAL MARKETS**



Canada's share of the British and European markets was cut in half during the period, a trend that went somewhat unnoticed at the time because of new markets opening up in the Soviet Union and the People's Republic of China.

**THE FLUCTUATING DEMAND OF CANADA'S LARGEST CUSTOMERS**

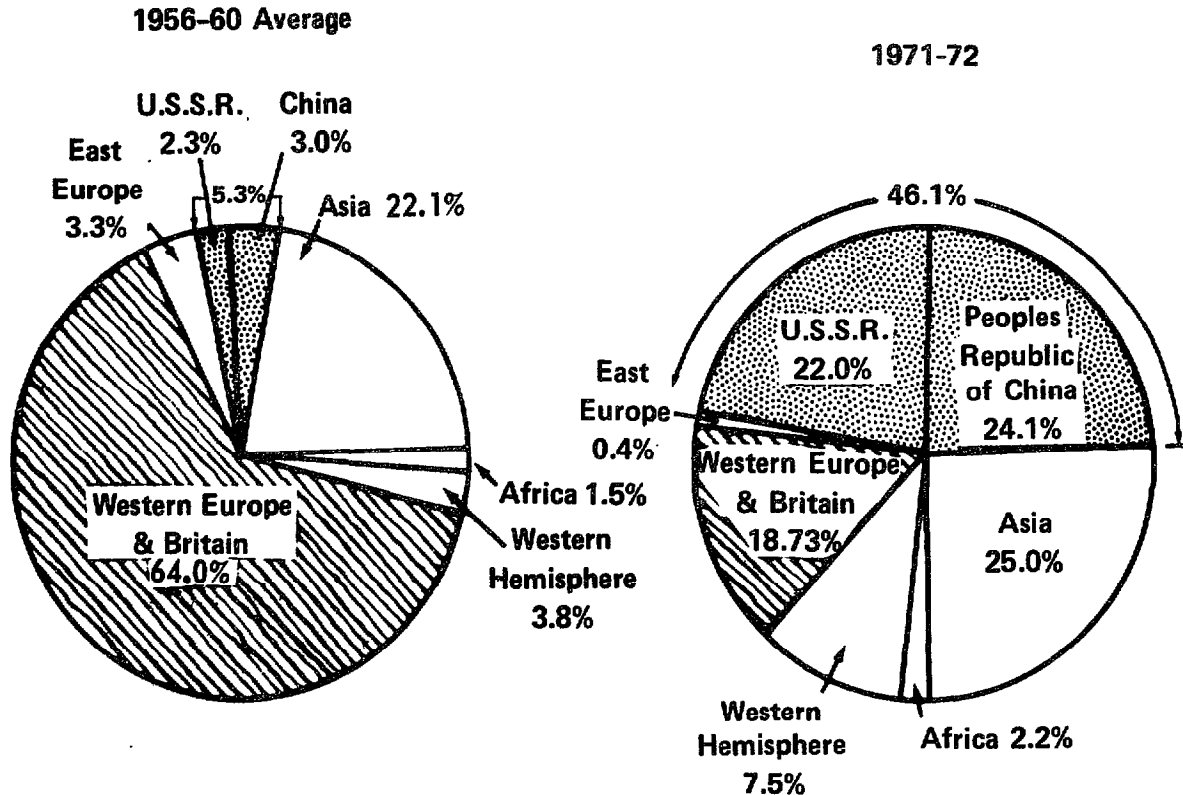
MILLIONS OF BUSHELS



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In 1968, exports to Russia, which had neared 200 million bushels a couple of years earlier, dropped to nearly zero, and the precarious nature of the new markets became apparent.

### THE CHANGING PATTERN OF CANADA'S WHEAT EXPORTS



### PERCENTAGE OF TOTAL EXPORTS BY DESTINATION

A review of the British and European markets during the 1960s showed it to be a decade of major change in an area that had been dominated by Canadian wheat since the turn of the century. In the 1960s, the United States, and Australia, began developing and exporting high quality wheats. The formation at this time of the European Community, with its common agricultural policy, gave French wheat a big advantage.

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During this period, English and European bakers, caught in a cost squeeze between rising costs and controlled bread prices, turned to revolutionary baking processes, involving a far lower percentage of high protein wheat (Canada's specialty) in the grist. But consistency was required in the percentage of protein used, and again this worked to Canada's disadvantage. Whereas the United States, Australia, and the Soviet Union began offering protein guarantees in their wheat in the early 1960s, Canada did not do so until 1971. Although some Canadians were aware of the protein grading requirement as early as 1957, Canada's grading system was established by law, and it was necessary to pass a new Grain Act in order to include protein grading.

A more general problem was identified in a 1971 Grains Council report, as follows.

"It is acknowledged that the character of a central agency system working its export business through channels of distribution largely owned and controlled by foreign companies does "per se" not lend itself readily to close contacts with secondary and end customers. By and large, the major part of all technical, promotional, and genuinely merchandising activities within the customers' area were conducted by and for Canada's competitors."

A Canadian Federal Task Force report of December 1969 pointed out that the Wheat Board, essentially a marketing agent, had become preoccupied with problems of farm income, storage, and inventory at the neglect of selling. It concluded that "high and stable prices are hardly in the best interest of the prairie grain producer if the grain must be stored, or if potential sales are lost."

Canadian wheat continued to be offered at a premium even after its quality advantage had been discounted (partly for lack of protein guarantees) in the marketplace. This was aggravated by the Board's attempt, from about mid 1967 to February 1969, to maintain the minimum price levels of the International Grain Arrangements long after they had been abandoned by other wheat producers. The Board's pricing also ignored the monthly fluctuations in European Community import levies--a major pricing factor used in the private trade.

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An earlier study <sup>1/</sup> of Canadian grain marketing had recognized the general problem of pricing under a Board system, stating that:

"there is the weighty consideration that where control of a country's disposal surplus rests with one body, if its decisions are influenced by political considerations, or if it misjudges the future trend of wheat values, the effects are widespread and may entail heavy losses which have to be borne by the taxpayer or the producers themselves."

Canada's current sales system is commonly referred to as "orderly marketing," but critics maintain there is nothing orderly about it. They claim the Board is actually the world's biggest grain speculator, since pricing decisions are made independently of world prices and are completely unhedged against fluctuations. For example, whereas daily wheat price changes on the Winnipeg exchange (where only feed wheat is traded) are limited to 10 cents a bushel, Board quoted asking prices have on occasion fluctuated by \$1 or more in a single day.

To maintain stable prices the Board will often ignore daily world market fluctuations. On occasion it has anticipated market change to the benefit of producers, but it has been wrong at other times. Critics point out also that the Board's practice of holding out for higher prices often ignores the heavy storage and carrying charges involved.

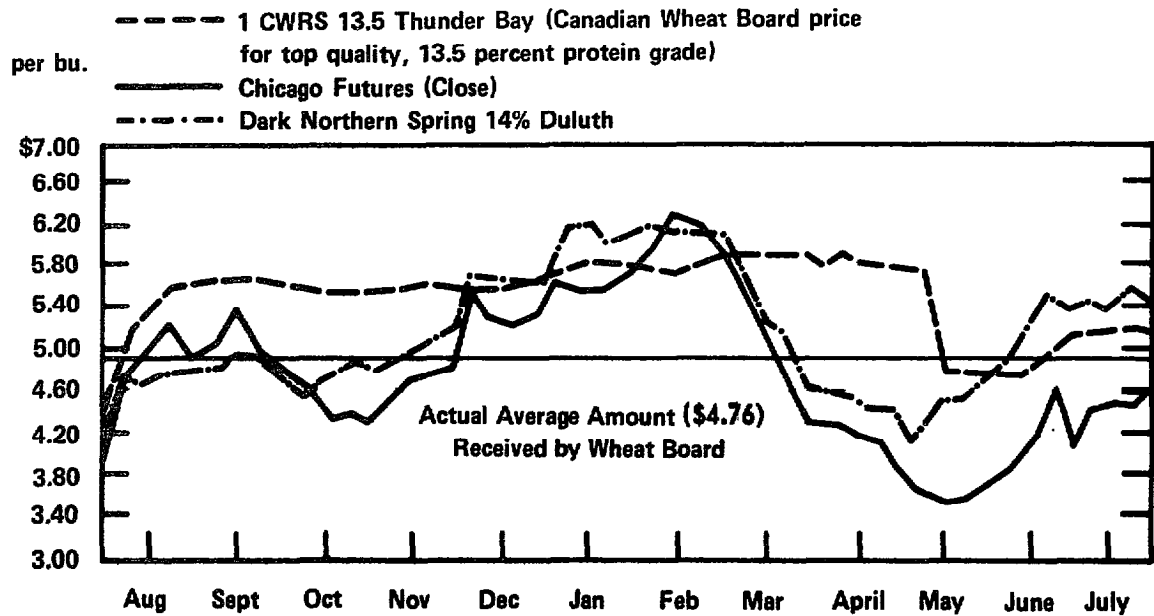
It is difficult to judge the Board's overall marketing performance because sales are usually announced well after they occur and prices are seldom disclosed.

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1/ Mac Gilbon, D. A., the Canadian Grain Trade, 1931-1951, University of Toronto Press 1952 p. 43 quoted in 1969 (Canadian) Federal Task Force on Agriculture Report.

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## EXPORT WHEAT PRICES 1973-74



The Canadian prices shown on the above graph are asking prices and do not necessarily indicate that sales were made at those prices. It would appear that the Board's average selling price during the year was about \$4.76--the amount paid to producers (\$4.57) plus marketing expenses of 19 cents a bushel.

The Board and many of its supporters defend this secrecy as part of effective selling, but some producers criticize the Board's failure to keep them informed on the selling price of their grain. Wheat Board pools normally are not closed or final payments realized until 2 years after planting plans are made.

It appears that the private trade is in the best position to learn of Board sales and to estimate prices. As Board agents, private traders usually handle some aspects of most transactions and trade representatives stated that they could generally estimate prices within a few cents.

The Board's monopoly control over grain exports gives Canada an advantage in controlling or allocating stocks in periods of short supply without resorting to formal embargoes. It can, and occasionally does, simply fail to offer certain grains for sale, or it can price them well above the market with the same effect.

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A number of steps, including the move to protein grading, have been taken since 1970 to improve the Board's marketing performance and its merchandising efforts abroad. Currently, wheat reserves are below 400 million bushels, and the Board's goal is to bring them down to about 100 million bushels, just enough to ensure its normal supply capability. There is now wide recognition in Canada's grain industry that large stocks are not only costly but also depress prices. Recent grain market experience has shown that the threat of scarcity drives prices up. Canadians have little enthusiasm for large world wheat reserves.

Despite increased emphasis on marketing, Canadian grain exports and share of the market have remained static, and some skeptics doubt that the central marketing agency will ever compete successfully with private enterprise.

#### RECENT CHANGES

A primary recommendation resulting from the series of inquiries made in the 1968-70 period was to establish a high level grains policy group within the government. This was set up in 1969, and some have seen it as a move toward greater control of grains policy by the government in Ottawa and away from the former autonomy of the Wheat Board in Winnipeg.

The present Minister responsible for the Wheat Board, who is also head of the grains group, is reputed to be open-market oriented. Other forces for change in that direction have been the formation of the Rapeseed Association of Canada and the Pallister Wheat Growers Associations (the latter formed as a protest group), the entrance of a large international grain firm into country buying and storing, and the increased activity of the Winnipeg Grain Exchange.

In 1973, rapeseed growers voted by a 52.7 percent majority to reject the central marketing of rapeseed--an outcome that came generally as a surprise. This is thought to have influenced the government's subsequent decision to adopt an open market for domestic feed grains. Also, the federal commission's examination of rail policy could result in liberalization of that policy. The Grain Commission's decision in 1974 to eliminate what

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in effect were set elevator-handling rates has paved the way for more flexible, cost-based rates and should encourage the modernization plans already started.

The Wheat Board, itself, has been concentrating more heavily on straight marketing and merchandizing. An International Grains Institute was set up for that purpose, and the Board has been working on more extensive market promotion plans. Two vacancies presently exist on the Board, so still further changes in that direction are expected.

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## CHAPTER 5

### THE EUROPEAN COMMUNITY

#### INTRODUCTION

In 1957, Germany, France, Italy, Belgium, the Netherlands, and Luxembourg signed the Rome Treaty agreeing to integrate their economies. In 1958 these countries established the European Community (EC), and in 1973, Denmark, Ireland, and the United Kingdom also became member states.

Before the EC was established the individual governments had complex national agricultural policies and abandoning these individual policies suddenly in favor of free trade was neither socially nor politically acceptable because of the potential disruption to the farming sector. Recognizing the need for a single agricultural policy, the EC established the Common Agriculture Policy to stabilize commodity prices at levels that afford producers fair returns while assuring adequate supplies at reasonable prices for consumers. The domestic grain price is supported through the establishment of minimum prices within the EC.

To insulate supplies and prices against the effects of the world market, the EC regulates grain imports and exports through a system of licenses, levies, and subsidies.

Major criticisms of the Common Agriculture Policy are that the price support and protection programs are too expensive and that import levies and export subsidies or levies disrupt international trade. It is stated also that the level of price support fosters inefficient production.

The Policy is financed through the European Agricultural Guidance and Guarantee Fund. All levies and duties collected by the original member states automatically accrue to the EC. Direct contributions to the Fund are also assessed, and are fixed as a proportion of the value-added tax collected in each member country. However, direct contributions cannot exceed the equivalent of a 1-percent value-added tax. By 1977, the United Kingdom, Ireland, and Denmark will have gradually adopted the European Community's independent revenue system, at which time the EC budget will become a federal budget financed by federal revenues.

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Expenditures of the Agricultural Guidance and Guarantee Fund in 1973 and 1974 for subsidies and price support are shown below.

<u>Commodity</u>	<u>Export subsidies</u>		<u>Price support</u>		<u>Total</u>	
	<u>1973</u>	<u>1974</u>	<u>1973</u>	<u>1974</u>	<u>1973</u>	<u>1974</u>
	(million units of account) <sup>a</sup>					
Cereals	468.8	76.2	484.2	323.6	953.0	399.8
Milk products	744.5	344.4	714.0	876.6	1,458.5	1,221.0
Other	229.7	170.0	1,018.4	1,308.2	1,248.1	1,478.2
<b>Total</b>	<b>1,443.0</b>	<b>590.6</b>	<b>2,216.6</b>	<b>2,508.4</b>	<b>3,659.6</b>	<b>3,099.0</b>
<b>Percent</b>	<b>39.43</b>	<b>19.06</b>	<b>60.57</b>	<b>80.94</b>	<b>100.00</b>	<b>100.00</b>

<sup>a</sup> Units of account are the monetary units of the EC.  
In December 1975, one unit equaled \$1.20.

Decreases in 1974 expenditures were due mainly to higher world grain prices.

The European Commission, composed of 13 representatives from the member states, acts as the EC's executive and secretariat. Commission members are committed to acting independently of national governments.

Each member state holds a seat on the Council of Ministers which meets in Belgium and Luxembourg and votes on EC operating proposals. The Council gives Commission proposals the force of law but the Council must accept the proposals by unanimous vote.

#### PRODUCTION AND PRICE SUPPORT

In the 1974-75 crop year (July through June), member states produced 106.3 million metric tons of grain--45.3 million in wheat, 34.1 million in barley, and 14.4 million in corn. Of the nine member states, four are wheat producers, four are barley producers, and two are corn producers, as follows:

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<u>Commodity and member state</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>
	<u>(millions of metric tons)</u>		
<b>Wheat:</b>			
Total Community	<u>41.4</u>	<u>41.4</u>	<u>45.3</u>
West Germany	<u>6.6</u>	<u>7.1</u>	<u>7.8</u>
France	18.0	17.8	19.1
Italy	9.4	8.9	9.7
United Kingdom	4.8	5.0	6.1
<b>Barley:</b>			
Total Community	<u>33.7</u>	<u>34.5</u>	<u>34.1</u>
West Germany	<u>6.0</u>	<u>6.6</u>	<u>7.0</u>
France	10.5	10.8	10.0
United Kingdom	9.2	9.0	8.8
Denmark	5.6	5.6	5.6
<b>Corn:</b>			
Total Community	<u>13.6</u>	<u>16.4</u>	<u>14.4</u>
France	<u>8.3</u>	<u>10.7</u>	<u>8.8</u>
Italy	4.8	5.1	5.0

The Common Agriculture Policy guarantees EC producers minimum prices for their products throughout the year, which normally stabilize producer returns. Although the stabilized price protects consumers during high world food prices it does not benefit them when world prices are below the established support price.

#### Intervention procedures

Purchases by the EC at the established price is called intervention. For grain other than soft wheat, the EC establishes a single intervention price which applies to all EC marketing centers. To encourage farmers in surplus areas to deliver their soft wheat to deficit areas, the EC differentiates the basic intervention price by calculating a derived intervention price applicable to each of its grain intervention and marketing centers. The derived price, which is the support price, is set lower in the surplus areas than in the deficit areas.

The derived price is calculated primarily on the price in the main deficit area of Duisburg, West Germany, less freight costs from other producing areas and considering area surpluses or deficits; area import potential from outside the EC; and area export potential to non-member countries.

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The derived price should be set to prevent wheat from other areas being offered at lower prices than the price established in the marketing center concerned. For example, in France the EC may set the highest price at seaports in order to draw surplus supplies to the port to stimulate grain exports. For Mannheim, West Germany, a major milling center, the derived price is set on a par with the Duisburg price to ensure a continuing flow of grains to West German millers.

To relieve pressure on the EC market during the harvest period and to provide for a more even supply of grain throughout the entire marketing season, intervention prices are increased each month for all grains. The increases serve as a subsidy to cover producers' grain storage and interest costs.

Normally, intervention agencies of member states are obliged throughout the grain-marketing year to buy at the intervention price all grains grown and offered to them in the European Community, providing such grains meet certain conditions of quality and quantity. For example, in West Germany, the seller (producer, trade, or cooperative) makes the intervention agency an offer of grain, specifying quantity, quality, and the desired marketing center. The marketing center, chosen from those designated by the EC as having adequate storage and handling facilities, must be one of three centers nearest to the locations of the grains when the offer is made. The intervention agency issues a contract accepting the offer and agrees to pay the seller the derived price applicable to the marketing center chosen by the agency where the grain is to be acquired.

Intervention buying has occurred in every crop year since 1965. Between 1965 and 1973, an annual average of 1.25 million metric tons of soft wheat was purchased (a low of 120,000 tons in 1971 and a high of 3.83 million tons in 1969). A fairly small quantity of durum wheat was also purchased by intervention authorities. Wheat intervention purchases were particularly heavy in West Germany, with lesser amounts in Italy and France. At the end of the 1974-75 crop year, EC wheat stocks totaled 7.5 million metric tons, 3.4 million tons of it in intervention stocks, mostly from previous years. The European Commission's July 1975 forecast indicated that wheat carryover stocks in EC intervention centers would be about 4 million metric tons at the end of the 1975-76 crop year.

EC officials stated that intervention agencies have been accepting wheat without making quality distinctions. Consequently, producers are turning more and more to cultivating high yield, low quality wheat. The West German intervention agency is concerned about this trend because it is resulting in the production of wheat varieties that are unsuitable for making flour for baking purposes.

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### Special measures

Intervention prices at the end of one crop year and those for the subsequent year normally differ because of price changes during the year and between one marketing season and the next.

When considered necessary to prevent EC producers from releasing their grain stocks onto the market at the end of the year, a payment may be made to those who agree to carry over stocks into the subsequent marketing year. This payment is determined by the EC Council and applies solely to EC grains in stock on July 31. The carryover payment cancels out any difference between higher end-of-year prices and the lower new prices. It also helps to assure that grain needed by the processing industries during the last 2 months of a season will not be offered to the intervention agencies.

Intervention measures are also adopted periodically to meet specified needs and can take the form of (1) slight regional increases in monthly intervention price increments to encourage farmers to keep their grain off the market, (2) grain purchases at prices slightly above the determined level of intervention prices to forestall a market price collapse, (3) payment of transport subsidies to shift grain to other locations, and (4) extensions of monthly increases to intervention prices beyond established cutoff months to avoid a drop in prices. Special intervention measures also can involve the payment of premiums to producers for limited storage periods to temporarily take grain off the market, prevent a drop in prices, and relieve intervention agencies from acquiring large quantities of grain. The producer can remove such grain before the specified period only through permission of the intervention agency and the Commission. Premiums are then adjusted to reflect changes in actual storage periods.

### Sales from intervention stocks

Intervention centers sell their grains to non-member countries or domestic users. Under normal market conditions, the intervention agency will sell the stocks whenever the market can absorb the additional supply. Sales for export and internal markets are handled by invitations to tender bids. The bidder offering the best conditions is awarded the contract, but bids for less than market value are not accepted.

In most instances, intervention stocks are sold to non-member countries. Internal sales are not prevalent, as

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minimum prices for marketing centers must be at least 1.5 units of account per metric ton higher than the intervention price to avoid disturbing the internal market. As sales for export are usually below the intervention price, purchasers must deposit 10 units of account per metric ton as a pledge against disposing of the grain on the EC market.

#### DOMESTIC MARKETING

According to 1972-73 marketing year statistics, the European Community was 90 percent self-sufficient in grain production, but only France was self-sufficient in all grains, as shown below.

<u>Member state</u>	<u>Percentage of self-sufficiency</u>
West Germany	79
France	168
Italy	67
Netherlands	28
Belgium/Luxembourg	43
United Kingdom	65
Ireland	63
Denmark	97

Since the EC was established, annual trade between member states has increased more than two and one-half times. Data for crop year 1973-74 shows that 71 percent of wheat and 92 percent of corn was marketed within the EC. From July 1973 through June 1974, France exported 86 percent of all wheat and 71 percent of all corn traded within the EC, as follows:

#### Exports of Wheat and Corn by France July 1973 through June 1974

<u>Importing member state</u>	<u>Wheat</u> (thousands of metric tons)	<u>Corn</u> (thousands of metric tons)
Belgium/Luxembourg	935	1,326
Denmark	-	41
West Germany	1,202	751
Ireland	136	152
Italy	1,476	92
Netherlands	909	900
United Kingdom	802	899
Total	<u>5,460</u>	<u>4,161</u>

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The member states are not limited to single roles as importers or exporters. For example, while the Netherlands imported 900,000 metric tons of corn from France, it exported 1.3 million metric tons mostly to West Germany and the United Kingdom; West Germany imported 1.2 million metric tons of wheat from France and exported 277,000 metric tons to Italy.

#### Compensatory price adjustments

To create market unity and facilitate the free movement of commodities between member states, the EC adopted a single unit of account based on the value of gold. However, national currencies are not stable, and when the value of one currency moves up or down in relation to other national currencies, relative prices in the countries change accordingly. In the absence of some adjustment to offset changes in relative currency values, exports from a country with weakened currency could undersell the goods of a country with stronger currency. Likewise, goods from a country with strong currency cannot compete in a country with weaker currency.

To compensate for the effects of currency rate changes the EC introduced monetary compensatory amounts in May 1971. These seem to prevent short-term fluctuations in exchange rates from affecting agricultural prices expressed in terms of national currencies. They served also as a transitional instrument while the international monetary system and the EC system changed from fixed to floating exchange rate systems. Monetary compensatory amounts apply to both member and non-member EC trade.

An exporter in a member state with a stronger currency receives a subsidy allowing him to compete in the market of a state having a weaker currency. Similarly, an exporter in a state with a weaker currency must pay a levy to make the price of its goods competitive with those of a state with a stronger currency. Subsidies are paid from and levies are paid to the European Agricultural Guidance and Guarantee Fund.

In trade with non-member countries, the monetary compensatory amounts are added to or deducted from import and export levies or export subsidies to maintain the price of the import or export at the world market price.

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Beginning in June 1973, monetary compensatory amounts for countries with jointly floating currencies 1/ were established and will remain constant unless price or parity changes occur. Amounts for individually floating currencies 2/ are set by the European Commission and are adjusted if a certain variation in the rate occurs.

The Commission believes that monetary compensatory amounts are a most serious obstacle to the unity of the common agricultural market and should be gradually eliminated if single market and Common Agricultural Policy pricing goals are to be realized. The lower level of agricultural prices in the three new member states is another impediment to EC common pricing and market unity goals.

To promote the movement of products between member states that have different price levels and to prevent new member states that have lower prices from undercutting higher prices of the original states, accession compensatory amounts have been adopted. They take into account the fundamental difference in prices in intra-EC trade and apply to trade between and with new member states.

When a sale is transacted from a high-price to a low-price state, a subsidy is paid to the exporter. For trade in the other direction, a levy is charged on the importer. The member state with the highest price levels is responsible for granting and levying the accession compensatory amounts. Subsidies are paid from and levies are paid into the European Agricultural Guidance and Guarantee Fund.

The European Commission has set December 31, 1977, as a target date for the new states to raise their prices to those of the original states and to phase out accession compensatory amounts.

#### IMPORTS

The EC is the world's largest importer of agricultural commodities and products, which account for about 25 percent of its total imports. Its agricultural and food trade with non-member countries was reported to have increased by 48 percent between 1963 and 1972.

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1/ At the time of our review, included Denmark, Benelux, Germany, and France. However, in March 1976 France dropped out of the common market's system of linked exchange rates.

2/ Includes the United Kingdom, Ireland, and Italy.

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The EC is a net importer of grains, and depends on non-member countries for wheat and corn. Grain imports are generally limited to quantities and grades that EC producers cannot supply.

From July 1973 through June 1974, the EC imported 4.5 million metric tons of wheat from non-member countries-- 1.5 million of it from the United States and 2.4 million from Canada; and 14 million metric tons of corn--10.9 million from the United States and 3 million from Argentina as shown below.

<u>Importing state</u>	<u>Wheat</u> (thousand metric tons)	<u>Corn</u>
Belgium/Luxembourg	118	251
Denmark	8	-
France	165	37
West Germany	598	3,229
Italy	1,467	5,237
Netherlands	586	3,876
United Kingdom	1,521	1,401
Ireland	-	-
Total	<u>4,463</u>	<u>14,031</u>

Import licenses

The EC importer must have a license to import grain. These licenses are issued by national authorities with no restrictions on quantity or origin and are valid throughout the EC. The import license must name the applicant and country from which the grain is to be shipped, describe the grain, list the quantity in metric tons, and state the last day of validity. A license may be transferred to another trader by endorsement but may not be transferred back to the original holder. An importer is required to place a deposit against issued import licenses, normally one-half of a unit of account per ton.

A license is generally valid during the month of issue and for 3 additional months. However, validity periods have changed when, in the Commission's view, the state of the commodity or currency markets necessitated such changes. In December 1975, the validity period was 60 days for soft wheat and corn and 30 days for durum wheat.

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If the market for a product undergoes or is threatened by serious disturbance as a result of imports, the EC can totally or partially suspend the issuance of import licenses, refuse pending applications for licenses, or suspend imports.

### Import levies

Levies provide the main protection for EC price levels from generally lower world market prices. For grain, levies are a sliding scale of customs tariffs which cover the difference between the predetermined minimum import price (threshold price) and the world market price (CIF price) 1/ on the day the grain enters EC customs control. The levy is computed daily whenever the price variation exceeds six-tenths of a unit of account per metric ton. The threshold price is based on standard quality EC grain and is calculated for Rotterdam but is applicable to all EC ports of entry. It is arrived at by deducting from a derived target price the (1) transshipment costs at Rotterdam, (2) transport costs between Rotterdam and Duisburg, and (3) importer profit margin.

The target price is the wholesale price that producers hope to receive on the open market. It is calculated annually, based on the Duisburg intervention price, and considers farmers' incomes, production and use of various grains within the EC, and development of trade with non-member countries.

Below are the 1975-76 crop year intervention, target, and threshold prices for soft wheat and corn in units of account.

<u>Grain</u>	<u>Intervention</u>	<u>Target</u>	<u>Threshold</u>
Soft wheat	125.93	139.44	136.45
Corn	103.43	126.41	123.40

The CIF price used by the EC is based on the most favorable purchasing opportunities on the world market. The Commission, in determining the lowest world market price, considers available market information for current-month delivery to Rotterdam; offers to other ports are adjusted by current freight rates so that they represent an equivalent Rotterdam market price. Since Rotterdam is reported to be one of the most efficient ports in the world, its prices are likely to be among the lowest, thus tending to maximize the levy.

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1/ Cost, insurance, and freight.

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Before a market price is used to determine the levy, it is adjusted by a quality coefficient which considers quality differences and world market values between varieties of a particular grain and the EC standard for this grain. The better the quality, the higher the coefficient of equivalence. If the grain offered on the international market is of higher grade than EC grain, which is usually the case with wheat, its coefficient of equivalence is deducted from the CIF quotation, thus increasing the levy payable.

#### Advance levies

An importer, at the time it receives a license, may establish the amount of the levy applicable to grain which will enter the EC at a future date. For this privilege, the importer must deposit a surety of 3 units of account per metric ton, as compared to one-half unit for the regular buyer. Advanced fixing of levies applies to the major portion of EC grain imports.

The advanced fixed levy is the difference between the projected threshold and CIF prices in the month of delivery. Although an adjustment (premium) is added if the projected forward CIF price is below the current CIF price, no downward adjustment is made if such prices are higher.

As the levy computation is based on quoted rather than actual grain prices, the importers may use the advance levy to speculate or hedge against changing levy amounts depending on the timing of the grain purchase. Should world prices rise enough to make the advanced levy unattractive compared with the current levy, the importer may find it advantageous to forfeit the deposit on the advanced levy and to use the current levy.

The European Community can suspend or reduce the period of advance fixing of import levies if the market undergoes or is threatened by a serious disturbance as a result of imports, and it has done so on several occasions.

Early in August 1973, world market prices exceeded the EC threshold level for the first time in EC history and import levies were suspended until early April 1974. In mid-July 1974, CIF prices dropped below the threshold price, but by mid-October soft wheat CIF prices were 23 percent above the EC threshold price and levies were suspended until January 3, 1975.

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### Preferential import agreements

The EC has preferential trade agreements with a large group of developing countries--most of which were former member state colonies in Africa, the Caribbean, and Oceania--and with most of the countries on the Mediterranean.

The developing countries are granted preferential treatment on imports of corn, millet, sorghum, rice, and certain products processed from grain. Morocco and Turkey have been granted one-half unit of account per metric ton levy reductions on durum wheat, and Turkey has been granted 8 units per metric ton levy reductions on rye and a one-half unit per metric ton reduction on canary seed. The Arab Republic of Egypt, under certain conditions, received a 25 percent levy reduction on rice.

### Transshipments

The EC has three free ports--Hamburg, Kiel, and Bremen in West Germany. Free ports are used to transship and store commodities destined for locations outside of the European Community. While they are in these ports, the commodities are considered in transit and are not subject to normal custom regulations. The only EC control maintained over transshipments is to assure that the commodities do not enter EC markets.

### EXPORTS

Although the EC is not totally self-sufficient in grains, France produces soft wheat in excess of EC requirements. This surplus production is exported to non-member countries and for the 1973-74 crop year 2.5 million metric tons were exported to 28 countries, primarily as follows.

<u>Country</u>	<u>Thousand metric tons</u>
Egypt	1,230
Libya	224
Tunisia	149
Syria	128
Portugal	106
Algeria	90
Lebanon	79
Saudi Arabia	76
Switzerland	68
Pakistan	61

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About 90 percent of EC grain exports are handled by international grain companies, whose financial resources and market analysis capabilities offer a distinct advantage over smaller national grain trading companies.

### Licensing

All grain exports to non-member countries are subject to export licensing. Member states issue the license to all applicants irrespective of location in the EC or of the EC supply situation. Applications must name the destination of the export and must be accompanied by a surety deposit, normally 5 units of account per metric ton, which is forfeited in whole or in part if the export is not completed or is only partially completed. Export licenses for grain are normally valid for 90 days. They can be transferred once, but the initial holder retains the responsibility for completing the export within the contracted validity period.

The export license does not control the quantity of EC exports. To encourage or discourage exports as a means of stabilizing domestic supply and price, a system of export subsidies and levies is used.

### Subsidies

Normally, EC wheat prices are higher than world market prices. To encourage exports, the EC offers a subsidy (restitution) to exporters to bridge the price gap. The subsidy is available to all licensed exporters on the day of export.

The European Commission generally establishes a subsidy rate after considering domestic supply and domestic and world prices. The amount of the subsidy can vary by destination to encourage exports to certain countries or geographic areas. The periodic establishment of subsidies at levels higher than the difference between domestic and world prices to promote exports has led to charges of unfair trade practices by other wheat exporting countries.

As with import levies, export subsidies may be fixed in advance of the date of export. The advanced fixed subsidy is that which is available at the time of application for an export license, adjusted upward or downward to projected world market prices at the time of future export, which is normally up to 3 months from the licensing date.

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The advanced fixing allows the exporter the opportunity to hedge against or speculate on price changes, depending on timing of the purchase and sale of the export wheat. If price fluctuations make the subsidy unattractive, the exporter can either complete the unfavorable transaction or forfeit the surety deposit; if price fluctuations make the subsidy attractive, the exporter can complete the transaction or sell its license along with the fixed subsidy. Exporters state that it is common practice to sell and to purchase licenses with fixed subsidies.

U.S. officials noted that, although the European Community has authority to suspend advance fixing, it has never done so, although it has occasionally suspended the issuance of licenses and taken action to discourage advance fixing. For example, in August 1975 the EC reduced validity periods for soft wheat export licenses from 90 days to 30 days and increased the surety deposit required for advance fixing from 5 units of account per metric ton to 10 units. The surety was subsequently increased to 30 units of account per metric ton.

#### Tendered subsidies

Following the shortage period in 1974, the EC exported large quantities of wheat. According to an official of an international grain company, the EC had set the subsidy higher than was warranted by domestic and world market conditions. As a result, exporters in a 1 to 2-day period obtained licenses and fixed subsidies for about 2 million metric tons of grain, or about 80 percent of the amount exported for the 1973-74 crop year.

Subsequently, the Commission established a tendering system for subsidies as a supplement to the regular export subsidy system. Invitations to bid are issued through the official EC journal, and include the quantity of grain to be shipped, and sometimes designate specific country or geographic area destinations. Bids are submitted by exporters to member states and are accompanied by surety deposits as specified in the invitations.

On the basis of the bids received, a maximum export subsidy is established, and all bids for subsidies equal to or less than that amount are accepted. Through the granting of a subsidy, an export license is issued.

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The tender system affords the European Community increased protection over the quantity of grain exported and increased control over its destination. Commission officials, however, stated that the tender system has offered higher subsidies than those established by the Commission under the regular system. EC officials feel that this system places the analytical risk entirely on the trade, but this may not always be the case. For instance, one multinational company official noted that, recently, grain available for export could have moved with an export levy but the Commission chose to withhold it from the world market. Eventually, world prices fell, and the grain had to be moved under a subsidy which proved costly to the EC.

Some international grain companies claim that the tender system denies certain flexibilities available under normal license application procedures. For example, one official stated that one country which had traditionally purchased EC grain from his company had to buy U.S. wheat because there was no open EC tender for that country.

Because tender bids are submitted on Thursday and bidders are not advised until Friday, international grain companies criticized the procedure since the market can change even within 1 day.

### Levies

From mid-August 1973 to the end of February 1974, the world grain market price rose above EC official prices. The European Commission may apply precautionary measures on trade with non-member countries when disturbances threaten the EC market. The EC considers its market to be disturbed when world prices exceed its threshold price by at least 2 percent, and the situation appears likely to continue.

To protect the EC against conditions similar to those of 1973 and 1974, the European Commission may apply export levies on all exports, fix a time limit for issuing export licenses, or suspend totally or partially the issuance of licenses. The measures selected must be terminated as soon as the disturbing condition ceases to exist for 3 consecutive weeks.

In September 1973, the Commission recognized a need to exercise protective provisions and adopted a regulation allowing for the establishment of levies through a tendering system. The regulation also provided for the possibility of retaining a special export levy for a fixed quantity of grain.

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Under the tendering procedure, the Commission publishes in the official EC journal an announcement of its intention to export grain under a tendering system. The announcement is open to all exporters and cites the quantity needed for export.

Exporters, in responding to the open tender, indicate the nature and quantity of the product to be exported and the amount of the export levy per metric ton. Before the Commission considers a particular bid, a surety deposit of 30 units of account per metric ton must be made. Once a bid is submitted it may not be withdrawn without loss of deposit.

The Commission uses its discretion in deciding criteria on which to establish the levy. Awards are based on factors other than the bid amount of the levy, such as price, taxes, and political and trade considerations.

During the world grain shortage of 1973 and 1974, very few export contracts were based on the tender system. The Commission's main interest was to safeguard continuous supplies for the EC market.

#### Limitations on reexport

Under a European Commission regulation, the EC will not grant subsidies on grain imported and reexported, unless the EC exporter proves that the grain involved is the same and that a proper import levy was collected. The export refund on such grain cannot exceed the import levy collected, and if the collected levy exceeds the subsidy available, the trader receives only the official subsidy.

Grain company representatives stated that reexport could be profitable only if these regulations were violated by exporting the grain as EC-produced. Although they stated that this might occur, it would not be prevalent as most imports are higher quality wheat needed in the EC and transportation and storage costs make reexporting too expensive.

#### Control

Traders within the European Community receive export subsidies upon proving that the grain has been exported from the EC and has reached the contracted destination.

The European Commission will also open tenders to specific countries or zones, and this undoubtedly provides

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control over final destinations. However, some grain company representatives express doubt that all final destinations are the same as those specified in the licenses.

In 1970, EC regulations made member states responsible for administering the Common Agriculture Policy. Therefore, the states audit export transactions to determine whether exporters are adhering to the policy regulations.

As of June 30, 1975, the irregularities noted existed primarily in the cereals sector, including grains. An EC study of the irregularities showed that 68 of 96 cases reported related to cereals. Fraudulent export subsidy practices accounted for the majority of the irregularities-- false destination, quantity, and quality declarations. There was one false customs declaration for goods not actually exported and repeated applications for refunds for the same goods.

The EC states that auditing company accounting records is the best method of tracking irregularities. It is reportedly working on a compulsory and uniform auditing system to be followed by each member state.

#### Food aid program

The EC has maintained a Food Aid Program since the 1973-74 crop year. The trend is to require less member state participation and more EC financial participation. The EC provided 45 percent of the total 1.287 million metric tons of wheat donated under the program during the 1973-74 crop year and 55 percent of the 1.5 million metric tons donated during 1975-76 crop year.

In 1975 a European Commission regulation stated that EC intervention agencies should hold available certain quantities of products they bought for emergency deliveries. The Food Aid Program has provided the following amounts of grain since 1973.

<u>Crop year</u>	<u>Metric tons</u>
1973-74	54,500
1974-75	65,000
1975-76	58,850 (proposed)

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In 1973-74 the Community allocated 30,000 metric tons of the reserves to India, 3,000 to Cyprus, 17,000 to the Sahel region and 4,500 to Ruanda.

As member states elect to assist developing countries, they submit their proposals to the European Commission for approval. The Commission then decides whether an offer is in the best interest of the EC and the state.

EC trade officials believe the farmers and traders generally approve of the Food Aid Program because it is a means of providing demand for their product. However, they believe the Commission should coordinate with major grain exporting countries before establishing food aid levels.

#### Bilateral agreements

For the crop year 1975-76, the EC entered into an agreement to provide Egypt with 1 million metric tons of soft wheat, including at least 200,000 metric tons of wheat flour. Originally, the EC considered entering into a multiyear agreement. This was rejected by member states, particularly the Federal Republic of Germany, apparently because this was the first binding agreement and its possible effect on the domestic market was unknown.

As of September 1975, it appeared that the European Commission was planning to increase future long-term agreements and food aid to 50 percent of the annual exportable supply of soft wheat.

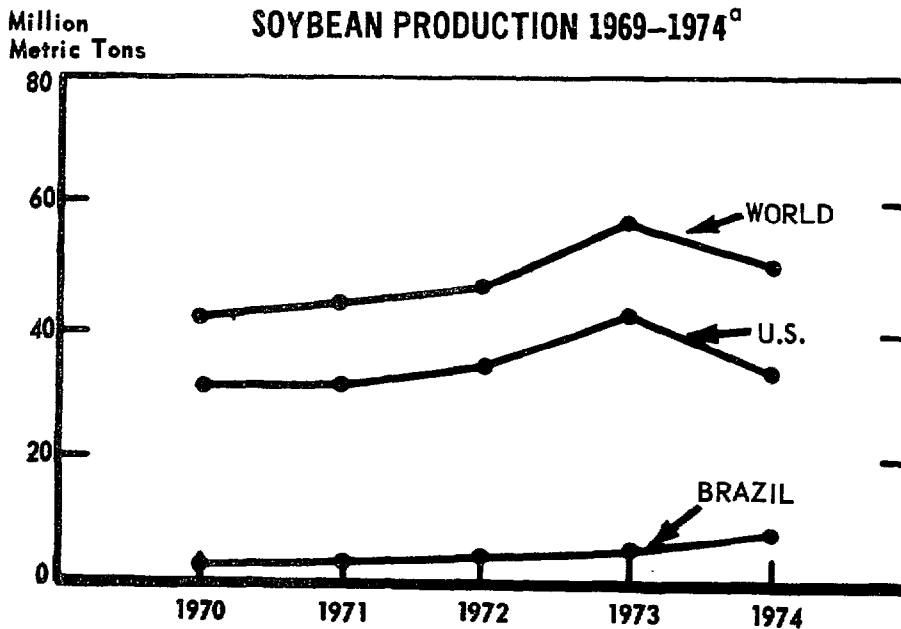
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CHAPTER 6  
SOYBEAN MARKETING  
IN BRAZIL

INTRODUCTION

Soybeans are the leading oilseed in world trade. Soybean oil is the most prominent edible oil available and soybean meal is the most important high protein livestock feed in world markets.

As shown in the chart below, world production has increased dramatically since 1970, particularly from 1972 to 1973. 1/



<sup>a</sup> CROP YEAR IS USED INTERCHANGABLY WITH CALENDAR YEAR.

1/ The decrease in 1974 world production can be almost completely accounted for by the drop in U.S. production, resulting primarily from a wet spring, a dry July, and early September and October frosts.

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Brazil's 1975 production is estimated at 10 million metric tons, a tenfold increase over that of 1969, while U.S. 1975 production is estimated at 40 million metric tons.

From production trends and the current production and marketing situation, the U.S. Department of Agriculture is forecasting a 1980 Brazilian production of about 15 million metric tons.

The dramatic increase can be attributed largely to the Brazilian Government's change of attitude toward the agriculture sector, which in the past favored the industrial sector and provided little or no assistance to the agricultural sector. During the past decade, the government has worked toward revitalizing the agricultural sector in the belief that if Brazil is to prosper it must assure the success and continued growth of agricultural programs. The increased emphasis on agricultural production was prompted in part by a growing concern over the balance-of-payment deficit and the potential for increased earnings from agricultural exports.

Government incentives have also encouraged expanded production of wheat, and more soybeans are double cropped with wheat due to their mutual fertilization properties and alternate growing periods. Wheat production and sales have increased from about 700,000 tons in 1972 to a forecast level of over 3 million tons in 1975.

Brazil's objective of promoting increased production and exports of soybeans was greatly assisted by increased worldwide demand for soybeans, attributable to several factors.

- Soybeans contain a relatively high proportion of protein and are available for import in a large and continuing volume from a single source.
- Soybean meal can be used for human consumption as well as for livestock and poultry food.
- Soybeans contain a higher proportion of meal to oil than do other oilseeds and meal is in high demand.
- Purchases by the Soviet Union as a result of its policy to increase cattle production and to upgrade diets.

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--U.S. policy on stockpiles is changing, so that the United States no longer serves as a buffer in times of short supply.

Increased demand for soybeans and production shortfalls in some other protein rich commodities in 1972 and 1973 caused the world price of soybeans to triple and greatly increased incentives to expand soybean production.

#### SOYBEAN PRODUCTION

In the past, Brazil's agricultural development has been hindered by outdated production methods, insufficient capital and credit, and weaknesses in the infrastructure of the marketing system.

Because of the government's heightened consciousness of and growing reliance on agriculture to play a key role in increasing foreign exchange, Brazil is now following an aggressive policy of stimulating agricultural production and exports through a variety of incentive programs.

Cooperatives, to which the vast majority of Brazil's soybean producers belong, dominate the national marketing system. They provide warehouse facilities, advice on market conditions, and a host of other support services and serve as a conduit through which farmers gain knowledge of market trends and potential price fluctuations. Cooperatives also supplement the Bank of Brazil in extending credit to small producers. The larger cooperatives have offices in major world trade centers and provide world market intelligence to their members.

#### Price support

To stimulate soybean production, the government has maintained minimum price levels for soybeans since 1965. The average guaranteed minimum price in 1975 was 60 cruzeiros <sup>1/</sup> per 60-kilo bag, which guaranteed a profit to producers in both Rio Grande do Sul and Parana, where about 85 percent of the estimated 1975 crop was grown. However, favorable world prices and adequate markets since inception of the support program has made government support unnecessary.

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<sup>1/</sup> Average 1975 exchange rate was 8.62 cruzeiros to the dollar.

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The government announces the support price about 2 months before planting time. The Committee for Financing of Production, under the Ministry of Agriculture, is responsible for gathering information on domestic production costs, world prices, crop projections, etc. In theory, this information is the basis for setting the support price. In fact, this information is used at the discretion of an interagency group consisting of the Ministers of Finance, Treasury, Planning, and Agriculture. Due to market conditions and the fact that the world price has been higher than production costs, the minimum price has so far been set in proportion to the world soybean price.

### Market analysis and forecasting

Expansion of agricultural production and marketing has been retarded by lack of timely and accurate statistics. The government has no market analysis or forecasting office, and the most accurate and consistent market analysis information is collected by international grain companies, the larger cooperatives, and the U.S. Department of Agriculture.

Because of the tremendous price fluctuations in world soybean trade caused by good or bad U.S. crop years, Brazilians keep close tabs on occurrences in the United States. According to traders and the farm press, the powerful COOP FECOTRIGO told farmers that in mid 1975 its four "crop watchers" in the United States concluded that U.S. crop estimates were inflated to adversely affect Brazilian exports. Brazilian farmers held back on their 1975 bean crops hoping for a recurrence of the 1974 soybean price developments. This posture was partially caused by certain leaders of the farm cooperatives, who speculated on another bad U.S. crop if the 1974 drought or early frost was repeated. However, this did not occur, prices dropped, and many farmers were left with the prospect of accepting lower prices for their beans.

The promotion of soybean production does not seem to be balanced by an accurate perspective of world supply and demand or substitutability and availability of other protein sources in future years. For this reason, prospects for next year's estimated crop of 12 million metric tons are questionable.

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Some current production information for the Brazilian crop is obtained from an observer satellite which passes over the main production areas every 16 days.

### Research

Current agricultural research is being carried out by the National Institute for Agricultural Research and the Institute of Agricultural Economics of the State Secretary of Agriculture in Sao Paulo.

Research has been assisted by the United States Agency for International Development which in 1971 approved an \$11.9 million loan designed to increase the capacity of government research centers by (1) financing technical assistance by U.S. universities, (2) establishing training programs in Brazil and the United States for Brazilian research personnel, and (3) financing imported laboratory and research equipment for the research centers. The Agency's financing for this program is scheduled to terminate on December 31, 1976, and all its bilateral activities are being phased out by the end of fiscal year 1977.

The current rapid growth of Brazil's soybean production is in no small measure the result of the work of the U.S. universities which operate with Agency for International Development assistance and are involved in research and in improving professional training institutions in Brazil. The Universities of Wisconsin and Purdue are noteworthy in this respect for their work at the Universities of Rio Grande Do Sul and Minas Gerais at Vicosa, respectively. The objectives of the education, research, and institutional development have been to help Brazil minimize its need for relief and continuing donations of food.

The American Soybean Association has recently entered into a joint venture with the COOP FECOTRIGO in Porto Alegre to develop markets for Brazilian soybeans in Brazil as well as in nonproducing countries throughout the world. It is also trying to create greater use of soybeans for animal food. The Association feels that Brazilian and U.S. soybean producers have a mutual interest in increasing the demand for soybeans and soybean products in Brazil. This venture with COOP FECOTRIGO is designed to provide an expanded domestic market for Brazilian soybeans at a time when world soybean production is increasing more rapidly than demand.

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## Credit and subsidies

In line with its increased reliance on soy exports to help alleviate the balance-of-payment deficit, the government carries out extensive agriculture credit and subsidy programs. Incentives are available to cover investment, production, and marketing of soybeans.

Credit to the production sector is extended at planting time to cover necessary capital outlays for farmers' crops. The farmer is given credit amounting to 80 percent of the soybean support price. From the time of the credit extension, the farmer must repay 20 percent of the total every 2 months or he can elect to sell his crop to the government. Until now, high world prices have made it more beneficial for producers to sell their crops on the market.

Credit to the marketing sector involves giving producers the option of depositing harvests in government warehouses and obtaining loans on them from the Bank of Brazil at interest rates of approximately 15 percent (the commercial rate is approximately 30 percent). The producer then has 210 days to pay off the loan. There is a 60 day grace period, then 20 percent is due per month. Under another option, the government acquires the total crop at support price. The producer may buy it back from the government if the market price makes it feasible, but must do so within a fixed period of time.

The current credit system has been in effect since 1947 for all agricultural commodities, but time periods and amounts redeemable vary for different commodities, depending on government priorities and policies.

The Minister of Agriculture stated that the current system of agriculture credit is necessary to raise agricultural productivity so that Brazil can effectively compete in the world market. He stated that during 1975, subsidies on agricultural credits with interest rates below 15 percent would amount to 15 billion cruzeiros.

Because of spiraling fertilizer costs, the government now subsidizes the cost (retroactive to January 1, 1975) by reimbursing producers 40 percent of the base price. This measure is said to be only temporary but will continue at least through 1976. The beneficiaries of the program

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are producers or their cooperatives and private or government-controlled enterprises which engage in agriculture and stockbreeding. Based on estimated 1975 use of fertilizers, current prices, and statements by Brazil's Minister of Agriculture, the subsidy cost the government about \$350 million.

Producers also accrue benefits in the form of income tax incentive for investments. Statistics show that, although farmers file about a third of the country's income tax returns, their contribution to income tax collections is very small.

### TRANSPORTATION AND STORAGE

Because of excessive transportation costs (about 7 times the cost in the United States) and limited storage facilities (total storage is estimated at about 35 million tons) a Brazilian official stated that expanding agricultural production into the vast interior will be counterproductive unless the infrastructure can be improved to facilitate transportation of commodities to Atlantic ports and to provide adequate storage. The inadequacy of storage facilities currently results in mile long lines of trucks outside port cities waiting to unload.

### Export corridors program

Because of infrastructure limits, Brazil in 1972 launched the export corridors program to finance projects needed to get agricultural commodities from the interior to the ports. The corridors lead mainly to the ports of Rio Grande, Porto Alegre, Paranagua, Santos, and Vitoria. Plans include the construction of railroads from the interiors of Mato Grosso, Sao Paulo, Minas Gerais, and Goias to ports at Santos and Vitoria and improvement of port facilities and highways.

Federal coordination is controlled by a group which includes representatives of the Ministries of Finance, Planning, Transport, Industry, and Commerce and the Brazilian Institute and which is chaired by the director in charge of rural credit at the Central Bank. The program is divided into five major components.

1. Improvement of agricultural productivity--through agricultural research, demonstrations, and extension work needed to teach farmers how to achieve

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increased productivity and provision of credit to finance acquisition of modern inputs and equipment needed by these farmers.

2. Expansion of agro-industry--through increased food-processing and cold storage capacities, principally for processing beef, citrus, and oilseeds. Additional funds are to be spent on food technology research.
3. Intermediate storage facilities--involves the installation of inland collection points for bulk cargo accumulation.
4. Railways--since the program relies primarily on railways rather than highways for inland transport, improved rolling stock and track to link inland collection points with ports is needed if transport costs are to be reduced sufficiently to make bulk cargo prices competitive on the world market. Brazilian farm-level prices for corn and soybeans are substantially lower than those in the United States, but higher inland transport and port costs offset these lower production costs.
5. Ports--need improved port depths, quayside storage, and loading facilities if bulk carriers are to be able to enter the ports and load cargoes expeditiously. About \$174 million is to be spent on this phase of the program--\$104 million by March 1974 and \$70 million by the end of 1976.

#### Japanese investments

Japanese investment in Brazil currently is estimated at about \$872 million, or 7 percent of total foreign investment. With more and more limits on expansion in Southeast Asia, Brazil is becoming an important outlet for expansion because of its natural resources and its need of capital and technology for development.

Brazil and Japan have a long history of cooperation, and their wide-ranging cooperative arrangements continue for developing Brazil's resources. In 1972, Japanese capital was pledged to help finance the five major components of the export corridors program. There is also a small amount

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of private investment planned or under way by Japanese firms to develop and improve farmlands for grains, oilseeds, and livestock.

Two new investments in the soybean industry are in the elementary stages. One is in Minas Gerais and consists of 49 percent ownership by conglomerates and 51 percent by Brazilian companies. Under a government-to-government agreement, Japan is to be assured of 40 percent of the soybean exports. Minas Gerais is projected as a soybean production center in the next few years because of its excellent soil and climate and its land availability.

The second soybean investment involves a Japanese corporation which has purchased and is opening up new land in Mato Grosso for the production of soybeans and wheat. Prospects are that much of this production will be destined for Japan and the trend toward such production will continue.

Overall Japanese interest in Brazilian soybean trade, however, seems to be fourfold.

1. To ensure that Brazil maintains adequate supplies for Western Europe so Japan's supply of soy products from the United States will be assured at low prices.
2. To have Brazil serve as a reserve supply for Japan in the event of future disruptions in supply from the United States, such as the embargo.
3. To satisfy Japan's desire to participate in the flourishing soybean trade.
4. To arrange barter plans in the event that future gluts on the market cause Brazil to take soybeans off the market at the minimum prices.

#### U.S. GOVERNMENT INVOLVEMENT

The Export-Import Bank of the United States loaned \$86,000 to an affiliate of a U.S.-based international grain company (Cargill) in 1973 to purchase processing equipment for its new Brazilian soy meal and oil facility. The facility is reported to be the largest and most modern in the world. In 1972, the Overseas Private Investment Corporation also made a loan of \$2.5 million for the facility.

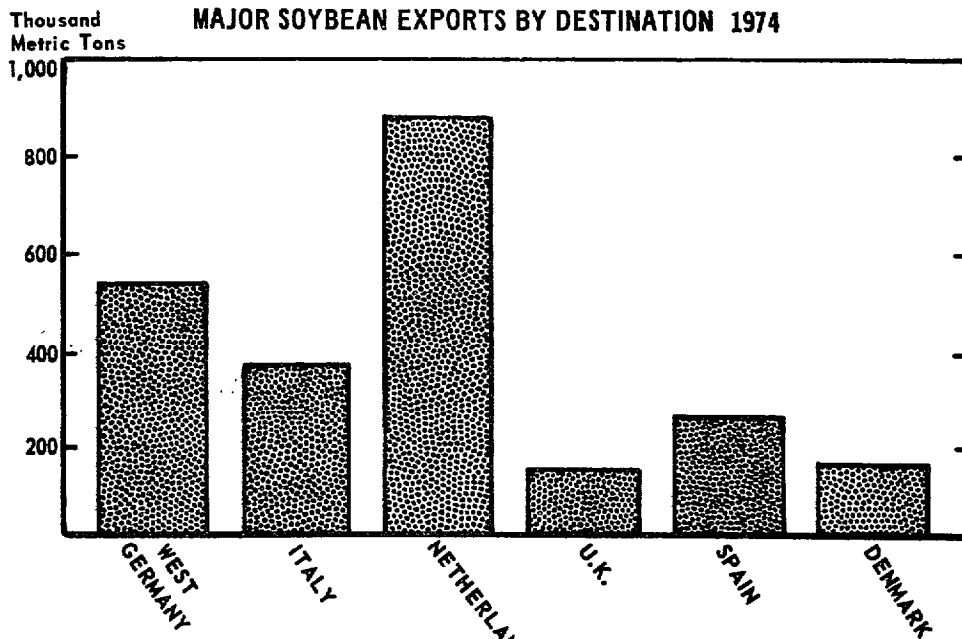
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## EXPORT MARKETING

The main aftereffect of the U.S. export restrictions was to disillusion our traditional soybean customers to such an extent as to make them consider Brazil as a future supplier. Brazilian exports to Western Europe and Japan were significantly increased during the U.S. embargo.

Brazil, with its tremendous increase in soybean production in the 1970s, has become a serious competitor for traditional U.S. soybean markets. In 1967, Brazil exported 304,000 tons of beans and 125,000 tons of meal. In 1974, it exported about 2.9 million tons of beans and 2.4 million tons of meal. Soybean oil exports totaled only 30,000 tons due to its imposition of an export embargo. One U.S. Department of Agriculture official stated that U.S. exports of soybean products were down 22 percent during the 1975 U.S. crop year (September to August) and that Brazilian exports were at least partly responsible. There is little doubt that Brazilian soybean production will continue to grow rapidly. The 1976 crop is expected to reach about 11.5 million tons, 15 percent above the 1975 harvest, and forecasts for the next 5 years generally indicate that production will rise at about 10 percent a year.

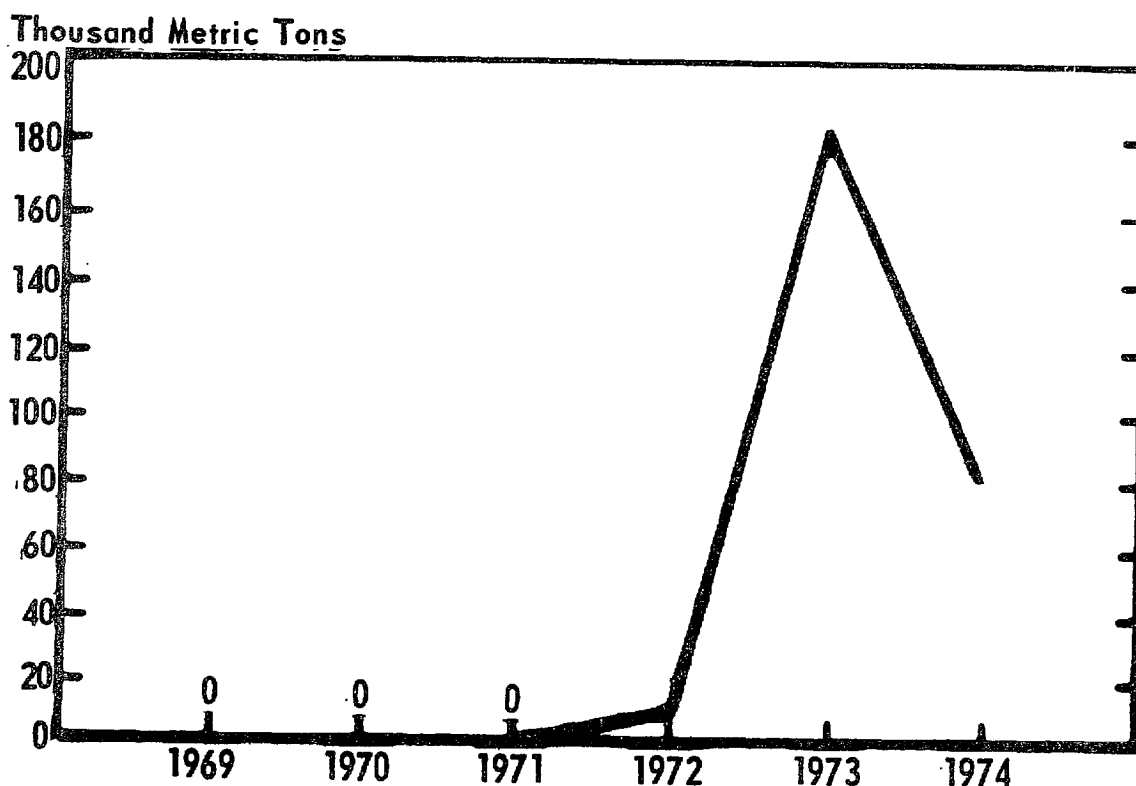
The bulk of soybean and meal exports goes to European markets, primarily the Netherlands, Germany, and Italy. The United Kingdom, Spain, and Denmark show promise for further market development.



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To date Japanese investment interests have not been reflected in their soy product imports from Brazil. Japan is one of the smallest markets for Brazilian soybeans and meal. In spite of speculation about increased investment and trade in Brazil being caused by the 1973 U.S. soybean embargo, there is little evidence to support the theory. As shown below, soy exports to Japan, although insignificant compared with exports to Europe, did increase in 1973, but 1974 saw a return toward minimal trade levels. Also, the trend in Japanese investment in grain and oilseed products was well under way before 1973. Exports to Japan may rise, but much depends on Japan's trade with the People's Republic of China, which is also a major producer of soybeans.

## BRASIL'S SOYBEAN EXPORTS TO JAPAN 1969-1974



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## Government control and incentives

Today, although export and domestic soybean trade is in private hands, the government exercises broad regulatory functions. It is involved in guidance, broad regulation, and stimulation but does not monopolize production and trade. While commercial corporations, cooperatives, farmers, and private exporters operate without the overt control of a soybean marketing board, broad control is maintained by the government, and established objectives (which currently shield domestic consumers from shortages and price increases and alleviate foreign exchange problems through increased agricultural export) receive priority treatment.

Brazilian soybeans reportedly are not subject to extensive damage due to the minimal handling. Consequently, their quality is higher than world standards, so quality of beans exported is not a critical element, and the government has no role in setting standards for grading. However, exporters are responsible for matching qualifications in the contracts. If the purchaser receives shipment and is not satisfied, he contacts the port superintendent who checks the shipment and makes price adjustments if necessary.

### Export licensing

The Foreign Trade Department of the Bank of Brazil exercises broad control over the volume of soybean products exported. The primary purpose of the licensing system is to ensure adequate supplies at reasonable prices for domestic consumption. Export licenses are periodically withheld in order to protect domestic supplies and to regulate domestic prices, but in actual practice, this mechanism is not generally used to insulate the domestic market from the world market. An exception to this was the restriction of export licenses for soybean oil in 1974 to maintain domestic supplies.

Exporters are required to register sales with the Bank's Foreign Trade Department 90 days before shipment and must indicate final sale terms and destinations at least 30 days before shipment. Licensing requirements stipulate that exporters provide the Department with all particulars of the sale, including purchaser identity, purchase price, shipping vessel, and time of shipment.

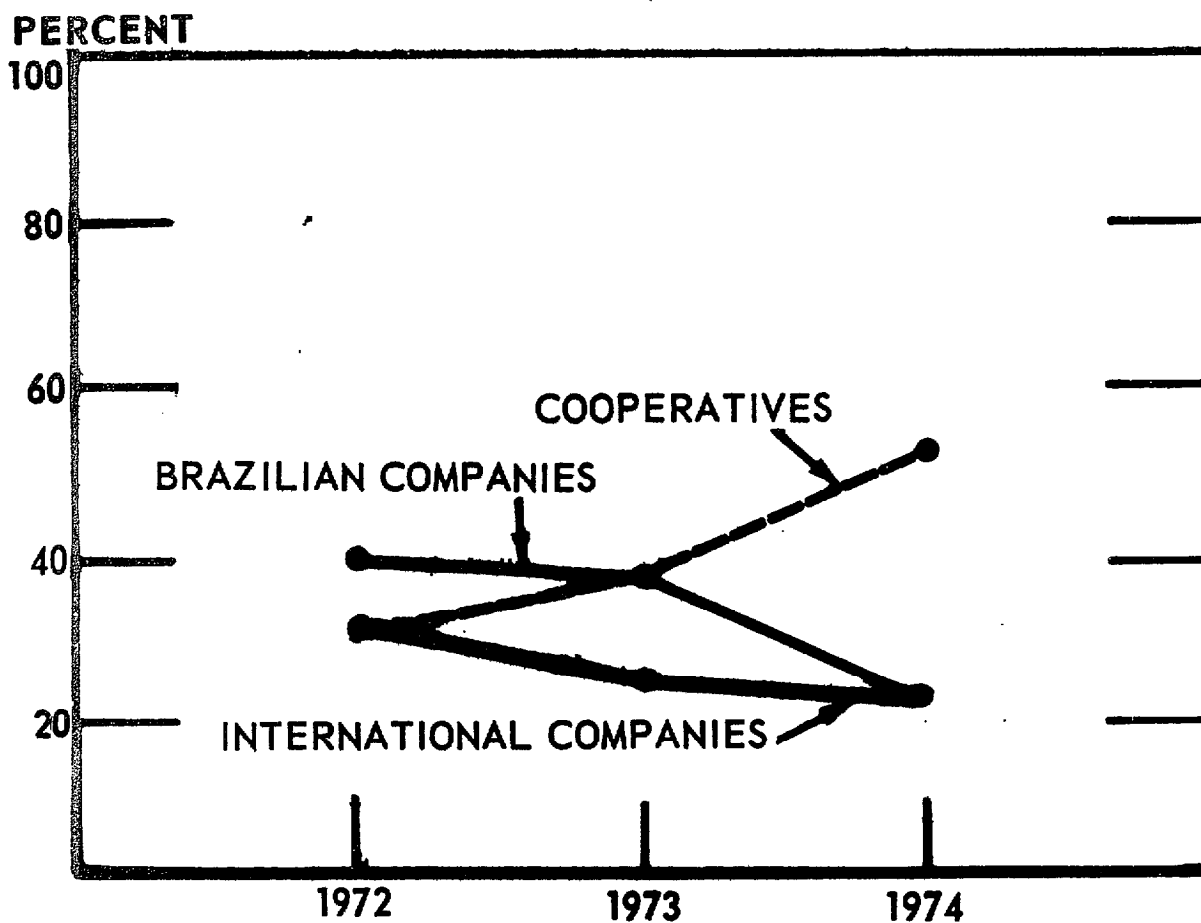
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In this way the government, while retaining an appreciation of the value of the foreign capital, is starting to show favoritism to Brazilian firms, at least on the surface, by granting an increasing proportion of export licenses to cooperatives.

Although this indicates that local firms are actually gaining increasing dominance in soybean exports (as shown below), the Bank's Trade Department action does not dictate the volume of final export sales.

### SOYBEAN EXPORTS BY TYPE OF EXPORTER 1972-1974



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It is common practice for the cooperatives to work closely with and to sell portions of their licensed quotas to international grain companies for export. Thus, even though the export is actually made by an international company, it is listed as a cooperative export according to the license.

Because of the inherent conflicts between producers, processors, and exporters, the government set up the Soybean Export Committee. The Committee meets infrequently and has no decision-making authority. However, some officials believe it is useful in decreasing tension between the government and the private sector by allowing the Foreign Trade Department of the Bank of Brazil to meet with producers, traders, and members of the Ministries of Agriculture and Finance simultaneously to discuss the needs and objectives of the various factions.

#### Direct export incentives

The most extensive direct soybean export incentives apply mostly to soybean oil, which is considered an industrialized product. The incentives are as follows:

- Profits earned on exports are exempted from corporate income taxes.
- Exporters may deduct from taxable income the foreign expenses related to export sales, such as promotion and advertising, office maintenance, etc.
- Exporters are exempt from IPI 1/ taxes.
- Exporters may enter IPI credits, based on the value of export invoices, into company accounting books.
- Exporters are exempt from ICM 2/taxes.
- Exporters receive credit equivalent to the ICM tax which otherwise would have been paid.

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1/ A value-added tax on domestic production and imports.

2/ A value-added sales tax collected by the states.

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The effective export price, based on the export incentives, is shown below.

	<u>Cruzeiros</u>
Price of the product in the domestic market, including a profit of 10 percent and an IPI tax of 10 percent	100.00
IPI tax deduction	<u>-9.10</u>
Price minus IPI tax	90.90
ICM tax exemption (13 percent)	<u>-11.82</u>
Domestic net price of product	79.08
Income tax exemption (3 percent of net export price)	-1.92
IPI tax credit (10 percent of net export price)	-6.43
ICM tax credit (10 percent of export price)	<u>-6.43</u>
Net f.o.b. export price	<u>64.30</u>

IPI is a processing tax and is not applicable to raw soybean exports, and the ICM tax for exports is the same as for domestic consumption. It is common practice to vary IPI and ICM taxes for soybean meal. ICM and IPI taxes are generally 5 to 8 percent compared to normal 13 percent export taxes.

Other duty and tax exemptions are available to exporters under the drawback system, which permits reduced import duties on components of a product to be exported.

#### State trading organization

COBEC, Brazil's semi-private trading company, is owned by the Bank of Brazil and a group of Brazilian commercial banks and U.S. and European banks. It is helping Brazilian firms to participate in Brazil's rapidly increasing agricultural trade while at the same time allowing the government to close bilateral contracts with overall Brazilian economic interests in mind.

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Principal assistance to Brazilian companies consists of providing port storage facilities so that companies are not forced to sell at low prices because of inadequate storage capacity, credit up to 80 percent of the value of the product put in storage, and trading on the Chicago futures market.

Many factors may be considered in determining soybean support prices, but the world price is the main factor, at least when production prices are lower than world prices. Government and industry affiliates now keep close tabs on futures prices, and as of early 1975 COBEC has had a representative in Chicago.

#### Marketing agreements

In the past, the Brazilian government has tended not to make long-term agreements with purchasing countries and to rely on well-established patterns with its traditional buyers in Western Europe. Now, however, in an era of keen market competition and critical foreign exchange position, the Minister of Agriculture is busily evaluating the implications of such agreements and looking toward long-term cooperative agreements.

Brazil's Minister of Agriculture and the Federal Republic of Germany reached an agreement concerning the promotion of a joint private industry venture in the soybean sector. The main feature of the venture was the establishment in Brazil of joint private industry facilities for producing, processing, and marketing soybeans.

In addition, the Government of Brazil is working through COBEC on an arrangement with Middle Eastern and West African countries to barter soybeans for fuel oil. COBEC, spurred by commercial company sales to the Soviet Union, has entered negotiations with the Soviets to further Brazilian soybean exports. At this time, COBEC is the only Brazilian company authorized to directly operate in international commodity exchanges, but, since it is a quasi-government operation, its true competitive nature is questionable.

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### Private sector involvement

Exports of soybeans and soybean products are handled by international grain companies, cooperatives, and private Brazilian exporters, many of which handle many commodity lines; e.g., coffee, cotton, corn, etc. Brazilian brokers and agents are involved in the domestic trade but in some cases processors contract or purchase directly from the producers.

The larger cooperatives function similar to large trading companies, maintaining their own agents and connections, or even branch offices, in important world trading countries as well as memberships on the principal commodity exchanges, such as the Chicago Board of Trade and the London Terminal Market. Hedging operations are conducted to protect forward export commitments under authorization from the Foreign Trade Department of the Bank of Brazil. Cooperatives service private processors and international brokers and agents while competing with them in external markets.

### International grain companies

The primary international grain companies in the Brazilian soybean trade at this time are Bunge & Borne, Anderson Clayton, Cargill, Continental, and Cook. These companies are involved in the processing industry and/or exporting. Their activities came under increasing scrutiny in 1975, partly as a political issue by the opposition party and partly as a real concern by some members of the administration who believe that foreign firms have too large a part in Brazilian agribusiness.

The marketing of the 1974 crop brought the issue to the fore. Producers received about \$130 a ton for their soybeans, while the market price soared to more than \$400, resulting in substantial profits for exporters. Although international grain companies constitute a large proportion of the exporters, 60 percent of the total export transactions, as reflected by licenses issued, are made by producer cooperatives.

The ensuing uproar from producers was aimed mainly at the international companies. The feeling was that these companies have an advantage due to their capital, management, worldwide market knowledge, and flexible worldwide sources of supply.

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A "Committee of Investigation of the Multinationals" was formed to look into the political, economic, and commercial overtones of the international companies. Its findings were pretty well summarized by the Finance Minister, who defined the role of foreign capital in Brazil. The principal theme was that Brazil at this stage of its development needs the capital and technology provided by the international companies and that the government has the necessary tools to ensure that the actions of these companies comply with the national interest. For all intents and purposes, the Finance Minister placed the responsibility on the government to reconcile the companies' actions with the national interest by:

- guaranteeing that local capital controls strategic sectors of the economy,
- preventing abuses in the remittance of profits,
- controlling these companies' access to local sources of savings, and
- assuring that these companies fit into the national objectives of import substitution and export expansion.

On the other hand, the President of COBEC expressed the sentiment that, in view of Brazil's rapidly increasing agricultural exports, such trade should not be left in the hands of the international companies, but the government should stimulate the involvement of national companies and provide itself with the instruments to close contracts with overall Brazilian interests in mind.

The present government attitude seems to be to accept what these firms offer for development potential while attempting to assure that their activities do not deviate dramatically from national objectives. Foreign capital is not discouraged in order that Brazil may realize its vast production capability, produce food for its rapidly increasing population, and stimulate exports.

However, the relative freedom with which the large corporations conduct business in Brazil does present a conflict for the Brazilian government which would obviously like to see larger participation by national capital.

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## United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, D.C. 20510  
 October 6, 1975

B-114824

The Honorable Elmer Staats  
 Comptroller General of the  
 United States  
 General Accounting Office  
 Washington, D. C.

Dear Mr. Staats:

The Subcommittee on Multinational Corporations is currently investigating problems in the present system of purchasing, handling, and distributing U.S. grain worldwide. It is looking in particular into the operations and practices of multinational trading companies responsible for the major share of our country's exports in wheat, rice, and other feed grains.

It is my understanding that the GAO's international division is undertaking a study which will include an evaluation of present U.S. export reporting regulations. The results of this GAO report will undoubtedly be extremely helpful to the Subcommittee's own investigation.

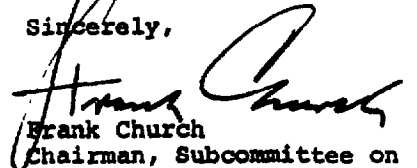
Because the Subcommittee is looking into the international operations of the largest grain exporters, it is important that we have a clear understanding of how other national and regional grain marketing systems work. I, therefore, am requesting that the GAO prepare a detailed report on the different export marketing systems in the world's principal grain supplying countries--Canada, Western Europe, Brazil, Argentina, and Australia. Specifically, the report should include a description of the way these countries allocate their supply, the role companies play as exporters under each system, the policies of the respective governments on such questions as favored export markets, reserves, commodity agreements, and food aid and any significant changes these countries may be contemplating in their export systems.

The Subcommittee will want to consider GAO's findings at the earliest date possible preferably in January 1976. By that time, the Subcommittee staff's own investigation will be near completion.

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For any further questions regarding this request, please contact Mr. Jerome Levinson, Counsel of the Subcommittee, or Mr. Richard Gilmore at 224-9174. We look forward to reviewing this report and stress its usefulness to the Subcommittee's own investigation. We hope that as your study develops, your staff will work closely with the Subcommittee staff.

Sincerely,



Frank Church  
Chairman, Subcommittee on  
Multinational Corporations

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