Montana Grain Growers Association

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Any discussion of the effects of grain imports has to recognize factors beyond the supply/demand/price models which are the tools of economists. Three additional factors, one largely social, and the other two strictly economic led the original grain disputes of 1993/1994 and to the lingering difficulties which continue to cause tensions at the Canada/U.S. border and at the WTO negotiations.

The first of these is the intertwining of social concerns in the agricultural policies of all countries. Subsidies, whether on grain prices or on freight, have largely been instituted as income transfers to rural areas. These have served to provide stability in an area where agriculture is risky at best due to the semi arid nature of the Great Plains.

Second, the largest single cost of producing grain is the land on which it is grown. This land is an investment of a lifetime for a farmer, usually capitalized for twenty to thirty years. As currency values fluctuate and as various subsidy schemes raise artificially inflated grain prices either by nationality or by geographic location, land values have followed those prices. To expect to see land prices rationalize to world markets in the short term, even as the grain market became integrated, was an unreasonable expectation.

Third and perhaps hardest to quantify, is the diversity in the price discovery process of the grain marketing systems of the two countries. While often the charges and counter charges of our wheat proponents in the two countries distort and divert attention from fact, there is agreement that the United States and world markets use a bid/offer system of attaching value to grain. This is predicated on the open outcry exchanges which let weather concerns, planting intentions, and other subjective factors alter strict adherence to supply/demand ratios. While using this same system to merchandise its product, a marketing monopsony has neither acquisition cost nor replacement value to influence its marketing decisions. Further, costs associated with identity preservation, cleaning, and freight are a deduction ***after*** point of sale and are used by the Canadian Wheat Board, by its own admission, to give Canadian wheat an advantage in world markets.

Disputes across the Montana/Alberta border are not new. In 1953, Montana farmers called for the reinstatement of a 2 cents per pound tariff on yellow mustard as imports from Alberta surged following a tariff reduction. An International Trade Commission hearing ruled that the U.S. industry would not be harmed by the rising imports but within ten years all Montana production vanished.

U.S. farmers, used to fifty years of supply control/ price supports found it hard to accept why U.S. grain companies were now sourcing Canadian grain while U.S. surpluses were seen as the reason grain prices were still barely covering production costs. Then in 1985, the United States launched a new offensive which not only used set-asides to reduce crop acres but also authorized a 36 million acre land reserve designed to be financed by lower deficiency payments resulting from rising grain prices. Coupled with reduced plantings, the United States began using export subsidies to battle the European subsidies which had begun to erode our market share. Just as stocks of grain seemed to finally be reduced to manageable levels, U.S. producers were outraged when imports surged nearly 400 percent in 1993/1994. One must remember that because perception plays such an important role in the U.S. price discovery system, it was not only the 80-100 million bushels of cash wheat entering the United States which depressed prices, but also the availability of all Canadian stocks which then thrust U.S. markets out of isolation and into the subsidy filled world. Land values had no time to adjust to this new reality and until the passage of new farm legislation in 1996, U.S. agricultural policy was likewise hopelessly superseded.

While frosts, the export enhancement program, fusarium head blight, and floods have all been used as a justification for the continued importation of approximately 8 percent of U.S. domestic wheat needs, and nearly double that if spring wheat and durum are viewed in isolation, it is my perception that the Canadian Wheat Board markets according to a marketing plan which will continue to target those percentages. It is impossible for me, or even for the most learned of economists, to accurately predict whether or not state trading is of benefit to its producers. But until such time as producers have a choice similar to that present on the feed barley side in Canada, the debate will rage.

What is certain is this. If commodity pooling is of benefit to producers, then it should be done in a non-discriminatory manner. Producers from both sides of the border should be able to participate in the disciplines and benefits of that system. If, on the other hand, it is a vestige of a past era, more of a benefit for social equity than for economic gain, then it must go the way of set-asides and export subsidies. The choice ultimately needs to be made by the farmers whose economic livelihood is at stake not the institutions which fear for their survival.