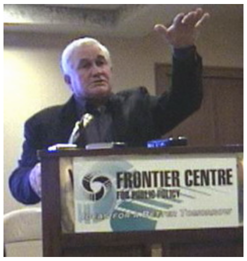
WITH R.M.A. Loyns, agricultural economist and President, Prairie Horizons, Ltd.



DR. AL LOYNS was Professor of Agricultural Marketing at the University of Manitoba between 1968 and 1998. He is the author or editor of over 140 papers, reports and books on agricultural and food marketing with a focus on market regulation, marketing strategies and trade disputes. He was an expert witness in the 1996 Canadian Wheat Board Charter Challenge and the Constitutional Challenge in 1998. He was president of the Prairie Oat Growers Association between 2003 and 2005. Dr. Loyns owns and operates a grain and oilseed farm in Manitoba's Red River Valley. He has a Ph.D from the University of California at Berkeley in Agricultural Marketing. He was interviewed following his speech, "Prairie Wheat: 13.5% Protein, 86.5% Politics" at a Frontier Centre breakfast November 10, 2006.

Frontier Centre: It's been ten years since you and Colin Carter published your study demolishing the myth that the Canadian Wheat Board delivers higher incomes for Prairie farmers. Yet just this morning the Minister of Agriculture cites the study as he argues for marketing choices. Why has this taken so long to sink in?

Al Loyns: Well, it's a bit of a stretch to say that Carter and Loyns demolished the myth that the Board gets mega-bucks for producers. We certainly challenged that proposition and produced pretty good evidence on the side of our argument. There are two reasons, I guess. First, the *Canadian Wheat Board Act* has created a whole amount of inertia in the system that perpetuates this process. The other reason is that the people who support a Board monopoly operate in the world of beliefs. It's very hard to change beliefs, even with hard evidence.

FC: The work of that seminal study has since been confirmed by other studies cited by Minister Strahl, those done by the George Morris Centre and the Sparks Companies. Can you summarize what they said? Do you agree with them?

AL: I pretty much agree with them, because in many respects they go over the same ground we did. They were able to do that because we used non-confidential data, which indicate that in a host of ways costs are higher in the system at the elevators and at the terminals. They point out that we are loosing value-added on the Prairies because of regulated marketing and the pricing policies that flow from monopoly regulation. In the end they conclude, probably more definitively than we did in 1996, that this creates net costs and, more importantly, that producer returns are lower than they otherwise would be. We were a little bit soft on that because our task was to analyze the costs in the system. I think we did a good job of that. We didn't do the revenue side; we only reached the conclusion of negative returns by implication not by hard analysis. These other folks have done that analysis.

FC: These price differentials are confirmed by spot price checks and by the constant availability of Internet prices. According to our Ag Policy Fellow, Rolf Penner, farmers in northern states just across the border are getting about $100 an acre more for wheat than we are here.

AL: I would say that $100 is probably a generous estimate, at least in terms of the numbers I reviewed today; that would take two tonnes of wheat per acre and I'm not sure that Americans just across the border are producing that on average. But the numbers are large. Differentials of $40-$50 per tonne are credible and repeatedly reported. A big chunk of that is costs that are created by our system that result in those differences, and by the competitiveness of the system in the United States relative to ours because of our excessive regulation.

FC: Can you briefly discuss the lost opportunity costs imposed by the monopoly model? Why do we lose on the processing side?

AL: The George Morris Centre report goes into this beautifully. It's because of pricing policies. They want to capture the export market. They are not prepared to take into consideration the value to the Prairies and to our producer groups of running our own plants, and of not having to deal with export prices per se. The export prices are what the Canadian Wheat Board looks at because that's all it can do. But processing operations on the Prairies can create value and make people on the Prairies better off. We don't get that opportunity under the existing system.

FC: It's easy to understand why the Canadian Wheat Board would claim credit for higher prices, but aren't those price differentials almost entirely a function of the superior quality of Prairie grain?

AL: My colleague, Michelle Veeman, at the University of Alberta has argued that most of the increases at the port that have been measured and attributed to the Canadian Wheat Board are attributed to the quality difference. I think that's a strong argument that has a lot of substance.

FC: Messrs. Fulton and Gray, ag economists at the University of Saskatchewan, are releasing a paper next week that says that pooling can never work in a free market. Are they right about that?

AL: I've heard Fulton argue this case before in a document he prepared for the Charter Challenge in

1996. I think his arguments are flawed. They are based on an acceptance of pooling the way pools are defined today. The pools as defined today probably wouldn't work in a voluntary arrangement. But there are many, many examples of voluntary pools that work. There are pools in peas and lentils. There are voluntary check-off programs on the Prairies that support various producer organizations. And in the end there are mutual funds out there. These are all forms of voluntary pools that work.

FC: Isn't the essence of pooling the averaging of returns over time? Don't individual farmers do that every year, and doesn't that economic function occur in other, unregulated markets?

AL: Pools can average a number of things. They can be averages of qualities, they can be averages over time, they can be between markets. Although they don't have to be over time, there is usually a time dimension to them. The problem with the present pools is that they are over too long a time period. It's a form of risk management. I agree with the Canadian Wheat Board's propositions about the value of that. But the risk management ought to be by choice, not by compulsion.

FC: Can we back up to what you just said about mutual funds and how they essentially are the same thing as pools. Can you discuss that?

AL: Obviously, they're not exactly the same thing. But they take revenue and pool it, they take costs and pool them, they pool administrative charges and people make their own decisions on whether they want to be in or out of the mutual fund. They are a pooling mechanism and it's pretty clear that they work and that they're in demand. Almost all of us have some mutual funds in our investment portfolios. I think it's a strong analogy. Grain pools and mutual funds are not identical, but they're certainly analogous enough to use as an argument.

FC: Is what Fulton and Gray assert – that no pooling occurs in the United States in farm products or in Canadian canola – true?

AL: Let's deal with the U.S. first. I'm not an expert on institutional arrangements within commodity markets there anymore. However, my colleague, Colin Carter, at the University of California is. I talked to him a few days ago and he referred to the rice co-op in the Sacramento Valley. It is still pooling, as he argued in 1996. He produced the evidence and discussed it in detail before these same economists, by the way. I think it's right that there is no pooling in canola. However, there are voluntary check-offs in canola that collect money for research and other things and as far as I know that works. There are lots of other cases in the private sector, even in the grain industry in Canada, where there are pools that work.

FC: Does the CWB really need facilities in order to compete in a free market, as Fulton and Gray claim? Why would it not be able to contract for a fee with people who do own facilities?

AL: I don't know what Fulton and Gray argue on that point so I can't comment on it. But there are lots of businesses, including grain businesses, that operate without any facilities other than an office, a computer, a telephone and a fax machine. The Canadian Wheat Board does not necessarily need infrastructure in order to be able to operate. One only needs to look at the news in the last few days and the arguments that two companies that may merge are making. They are saying that if the merger goes ahead there will be lots of pretty cheap, surplus grain facilities available across the Prairies if the Board were interested in acquiring infrastructure. But in my view it's not a necessary condition for dealing in the grain market.

FC: Fulton and Gray also claim the Canadian Wheat Board would not be able to buy its own facilities. Why would people who own existing facilities universally refuse to sell any of them to the CWB, as they allege? For a price, capitalists would sell their own mothers.

AL: That's your attribution, not mine. I don't know what Fulton and Gray have said on this point, because I haven't read the material. The proposal from the recent task force on CWB II will provide for capitalization to get grain cars and provide a hundred million shares at a dollar a share with further sales later on. There's a hundred million there to acquire things if they want to. I think the government is already anticipating making some money available if the Canadian Wheat Board wishes to handle it that way. If I were running a CWB II, I would place more priority and allocate a lot of that money to securing supplies. I would identify who my supporters were and go to them to get them to commit to provide grain to me.

FC: Why would people who do own elevators, terminals or port facilities refuse to deal with the Canadian Wheat Board's product? Would they put their own goods at the top of the queue and subject the CWB to some form of discrimination? Is that a real danger or an imagined one?

AL: It's pretty much imagined, I suppose. Whether they will deal or not will be a function of financial motivation. Do they have the capacity to take on extra business outside their own firms? We have "no name" products in grocery stores. Why do the main food processors contract different labels on foods? Because they have the capacity and because they can make money out of it. I suspect the companies might believe that they could make some money out of the Canadian Wheat Board by dealing in its grain.

FC: Fulton and Gray also say that SaskPool experienced a sharp drop in "producer loyalty" once it restructured, and conclude from that that a CWB II couldn't not reliably obtain product. But hasn't SaskPool been successful in its new business model?

AL: SaskPool lost a lot of its clientele because they felt smitten by that organization and felt it had given up its co-operative roots. But I guess the fact that SaskPool is out there making a legitimate offer for Agricore suggests that that company is back on the road.

FC: Doesn't producer loyalty in a free market depend on the results that marketers achieve for them? Why can't a free Wheat Board command commercial allegiance by doing a better job?

AL: In any business, the allegiance of a clientele is based on the quality of service and treatment and the quality of returns. If it's revised, the Canadian Wheat Board should be able to accomplish a lot of that if they do their job. It's been argued by a lot of people over time. I haven't argued it particularly, but it seems to me that the writing's on the wall.

FC: Isn't the Canadian Wheat Board model for farmer voting a perversion of democracy? Isn't letting every farmer with a permit book vote, even those who sell no wheat and barley, the same as allowing dead people to vote in elections?

AL: I'm not going to answer that question. I'm going to answer the question, "What does Loyns have to say about voting on a new Canadian Wheat Board?" The voting process is going to be changed. It's out of date. In terms of voting on the process, first and foremost we have to recognize this is an element of national policy. This is not an ordinary corporation that we are voting on. Consequently, the notion of shareholder voting, which is where the Wheat Board wants to go by having permit-book holders vote, is not valid in my view. Reducing the number of voters, as Minister Strahl has done, is one approach to trying to make sure the corporate users are the ones that get the vote. That's not the way I would go. I would let all grain farmers in the Wheat Board area vote because all grain farmers are impinged by this regulation. I would go further. I would have hog and cattle producers, at least in principle, on that list because they are impacted by the Board as well. We should be expanding the list given that this organization is an element of national agricultural policy, not reducing it as if it were an operating entrepreneurial corporation.

FC: You say that the Wheat Board argument is way more about politics than economics. If the economic case is a slam-dunk, how can some economists keep on arguing for single desk?

AL: I think you'll have to ask them. I don't understand how some of these folks come up with the answers they do. The notion that analyzing returns at port and not taking that back to the farm level is incomplete economic analysis. Not coming to grips with some of the arguments we make on voluntary pools, for example, is frankly a little bit of a book-burning. But our colleagues at the University of Saskatchewan are on an island and they are consistently arguing the way they argue even though their positions are at odds with evidence from other areas. But you know, it's said about economists that even if you laid them end to end they wouldn't reach a conclusion. There are other folks out there, including a lot of farmers, that argue that if you laid economists end to end it would be a good thing.

FC: How do you think this will all play out over time? When will we have marketing freedom? Soon, or not so soon?

AL: The answer to that question entirely depends on when the next federal election happens and how it goes. If the Conservatives lose their minority, it will come to a halt, that is, assuming the Liberals have at least a minority and are buoyed up by the NDP. This is highly political and the NDP and the Liberals are totally committed to maintaining the organization as it is. The Canadian Wheat Board is spending lots of money and there are some farm organizations spending a lot of money to make sure they retain that allegiance within those political parties. At the same time I think there's no doubt the Conservative party is committed to making changes. Can they make it under a minority this time? Maybe. I wouldn't bet on it though. And could the Conservatives make it under a minority next time? Probably, somehow. I wouldn't bet on it either way at this stage.

The Frontier Centre for Public Policy is an independent public policy think tank whose mission is to explore options for the future by undertaking research and education that supports economic growth and opportunity. You can contact the Centre at: Suite 25 – Lombard Concourse, One Lombard Place • Winnipeg, Manitoba CANADA R3B 0X3 •Tel: (204) 957-1567 Fax: (204) 957-1570 • E-mail: newideas@fcpp.org • www.fcpp.org