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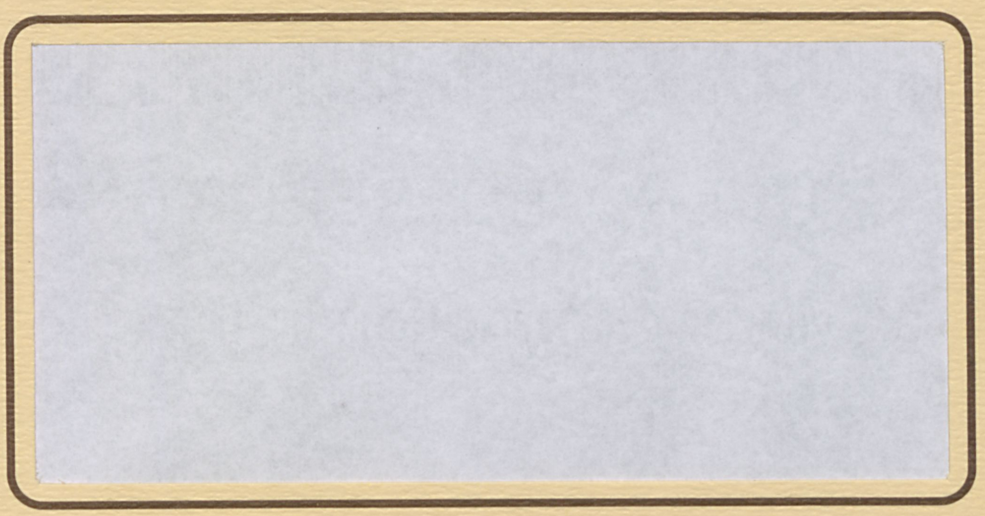

PROJECT REPORT

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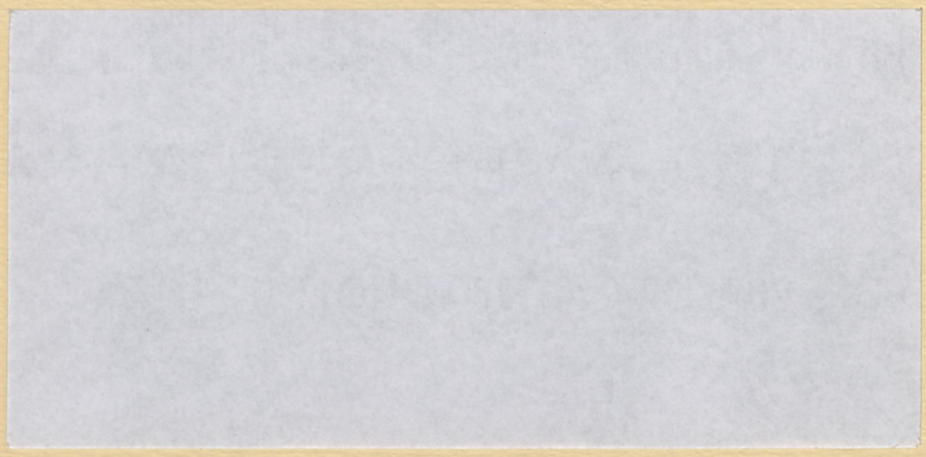

MARKET PROMOTION IN THE INTERNATIONAL WHEAT TRADE

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Project Report 89-11

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ABSTRACT

A high percentage of Canada's wheat production is exported and thus the development of these markets is an important aspect of the wheat industry in Canada. This study focuses on the international wheat market and looks at ways export dependent countries such as Canada can enhance export demand. It is hypothesized that (non-price based) export market and development and promotion activities positively impact demand, but that the farm policies of the EEC restrict the benefits of promotional activities targeted to member countries.

The objectives of this study were to define agricultural export promotion, develop a basis for analyzing the impact of market promotion in the international wheat trade, describe the promotional systems of the major exporters and finally assess whether or not the perceptions of wheat industry experts located in London, Antwerp, Brussels, and Rotterdam support the findings of two empirical studies regarding returns to export commodity promotion.

Firstly, the importance of wheat exports are discussed showing that Canada and Australia are the most reliant (of the major wheat exporters) on export markets. The structure of the international wheat trade is then described along with a description of what constitutes market promotion in the international wheat trade. The export marketing systems are described as to the variety and type of promotional activities that are undertaken on behalf of the wheat producers of the five major wheat exporters. Finally, the results of interviews with 28 selected industry experts are summarized and presented.

A conclusion of the study is that traditional forms of market promotion such as milling and baking assistance are viewed as being important in developing markets, but less important in mature markets (eg. Western Europe). Furthermore the study finds that foreign trade offices are an important means of making contact and staying in touch with customers, undertaking various forms of promotional activities, gathering market intelligence along with understanding and working with the farm and trade policies of both competitors and customers. Wheat exporters who do not actively participate in the key foreign markets and major trade centers such as London and Brussels are viewed as disadvantaged with regard to knowledge of customers, supply and demand trends, the activities of competitors and the ability to differentiate product and market services. However, the economic benefits to increasing the level of resources devoted to gathering trade and market intelligence are not clear.

Another conclusion of the study is that levies imposed by the EEC on the importation of third country wheat restrict the potential benefits to increased market promotion in Western Europe. Overall, the study finds that limited potential exists for increased exports of Canadian wheat into Western Europe. Notwithstanding the above, there may be niche markets for Canadian durum wheat, and to a lesser degree niche markets for milling wheats (used to manufacture of high quality "speciality" breads), both inside and outside of Italy.

A final observation of the author is that the international wheat trade is highly confidential and personal relationships and contacts are important means of making sales and the gathering of market intelligence.

1 INTRODUCTION

1.1 Background

Canada's reputation as a producer of high quality wheat began with shipments of Canadian "Red Fife" wheat to Minneapolis and Liverpool in 1877.[1] In 1904 another variety of wheat called "Marquis" was developed and soon became the standard by which other wheats were judged for licensed production in western Canada.[2] High quality standards, and increased production inspired by the food shortages of World War I, contributed to Canada's new identity during the twenties and thirties as the "bread basket of the world". At this time, Canada was the dominant world exporter with approximately 35 percent of the wheat and wheat flour market (Wilson, 1979). Canada remained the world's largest exporter until after the second World War at which time the United States (US) overtook Canada in an expanded international wheat market (Wilson, 1979). Since then, Canada's share of the international wheat market has decreased, and its reputation is now largely based upon being a consistent supplier of high quality milling wheat.

In addition to playing an important role in the history and development of the international wheat trade, Canadian wheat producers also play a role in generating foreign earnings and maintaining a positive balance of agricultural trade. From 1979 to 1985 export earnings from the sale of wheat averaged Canadian (C)$3.884 billion (B), which on average comprised 44.9% (by value) of all agricultural exports from Canada.[3] During the same period, average total agricultural exports and imports were C$8.659 B and C$5.399 B respectively.[4] Thus the exclusion of wheat exports might indeed create a negative balance of agricultural trade (on average), a fact which reinforces the degree to which wheat dominates Canadian agricultural exports.

Since 1960 Canada has ranked second to the US in market share with approximately 20 percent of the total export market.[5] Current data are shown in Figure 1.1 describing the relative market shares of the major wheat exporters from 1976 to 1987. During this period the market share of the US has declined, while Canadian and Australian export market shares increased modestly. More dramatic was the increase in EEC market share from 7 percent in 1976 to about 16 percent in 1987.

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1 Wilson, C. F. Grain Marketing in Canada. The Canadian International Grains Institute, Winnipeg, 1979.

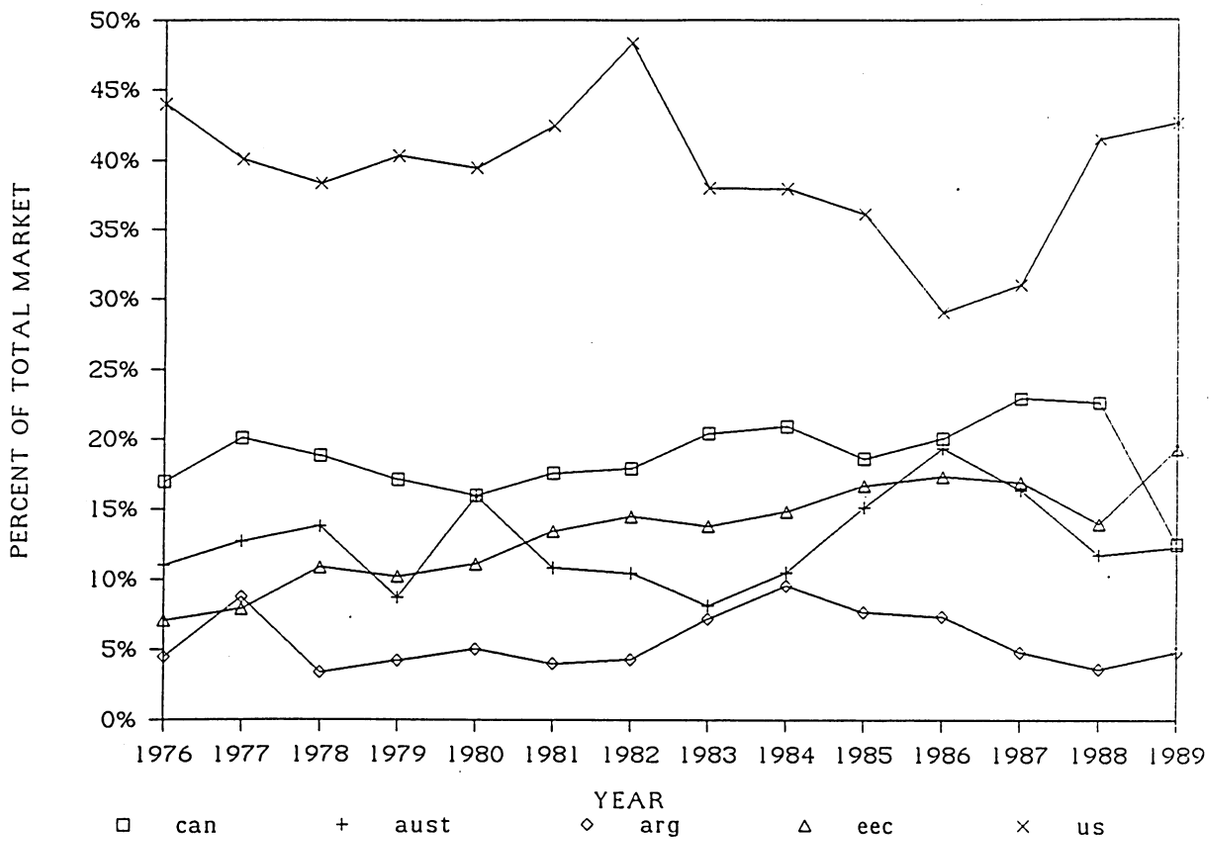
2 Canada Grains Council. Wheat Grades for Canada - Maintaining Excellence. A Report Submitted by the Grain Grading Committee, Winnipeg, 1985.

3 Agriculture Canada. Handbook of Selected Agricultural Statistics. Policy Branch, 1986, p.84.

4 Ibid, pp. 84-85.

5 Wilson, W., W. Koo, C. Carter and Y. Tedros. "Import Loyalty in International Wheat Markets." North Dakota State University, AE 86011, 1986.

Figure 1.1. Export Market Share
Major Wheat Exporters 1976 to 1989



Note: Beginning in 1984 intra EEC trade is not included in the above figures.

Adapted From: Canadian Grains Industry - Statistical Handbook 1976-87.
USDA, Home Grown Cereals Authority, projected figures 1988-89.

Although the world wheat trade appears to be dominated by the US and to an increasing extent by the EEC, smaller producers such as Australia and Canada are relatively more dependent on foreign markets as an outlet for domestic production. Table 1.1 shows the relative importance of foreign markets to the five major wheat exporters. Australia and Canada are the most dependent on foreign markets with an average of 73.4 and 73.8 percent (%) of their respective production being exported over the six year period from 1982 to 1987. Argentina (60.3%) and the US (56.3%) are less dependent with the EEC having exported only 23% of production during this period.

Given the apparent heavy reliance upon export markets, it would appear that export market development and promotion activities would be an important component of the export marketing systems of those countries most dependent on export markets (Eg. Canada).

Table 1.1. Dependence on Foreign Markets by the Five Major Wheat Exporters (average 1982-1986 M tonnes)

	Production	Exports	Exports as a % of Production
Argentina	11.764	7.105	60.3%
Australia	16.713	12.277	73.4%
Canada	26.108	19.286	73.8%
EEC[10]	65.638	15.119	23.0%
USA	66.903	37.712	56.3%

Note: Figures are an average of five years
Sources: IWC World Wheat Statistics (1986), FAO Production Yearbook (1986), Canadian Grains Industry - Statistical Handbook (1987)

1.2 Definition of Export Market Development and Promotion

The definition and categorization of what constitutes export market development varies among researchers. This section introduces the topic area and defines export market development and promotion.

The marketing package may be referred to as the sum total of activities used by an agency or company to affect the market place (Kotler et.al., 1988). According to Peter Drucker:

> " The aim of marketing is to make selling superfluous. The aim is to know and understand customers so well that the product or service fits them and sells itself" [6]

According to McKinna (1978) the term market development is used to describe the techniques and activities used to find and develop new markets for existing products, markets for newly developed products, or to maintain and/or expand sales of existing products in existing markets.[7] Less specific is the term promotion. A general definition of promotion is given by Stanley (1977):[8]

> "Promotion is any communicative activity whose purpose is to move forward a product, service, or idea in a channel of distribution. It is an effort by a seller to persuade buyers to accept, resell, recommend, or use the product, service, or

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6 Drucker, P.F. Management: Tasks, Responsibilities, Practices. New York, Harper & Row, 1973, p.65.

7 McKinna, D.A., "Agricultural Export Market Development and Promotion" Department of Agricultural Economics, Cornell University, Ithaca, New York, 1978.

8 Stanley, R.E. Promotion: Advertising, Publicity, Personal Selling, Sales Promotion. Prentice-Hall, Inc., New Jersey, 1977.

idea being promoted. In short, it tries to affect the knowledge, attitudes, and behavior of recipients and to persuade them to accept concepts, services, or things."

Quilkey (1986) has defined promotion as "the provision of information to customers about the qualities and prices of a product or product class".[9] Quilkey suggests that the objective of promotion is to increase the net revenue of an organization's members (eg. producers). The increase in net revenue is expected to be derived from increased consumer (processor) expenditures on the product and an increase in the proportion of sales within the target market. Quilkey suggests that the purpose of promotional activities is to decrease the elasticity of the demand for a product or product group.[10]

Grigsby and Dixit (1986)[11] categorize agricultural export market development programs as being only one component of the export expansion program in the US. The other categories are export credit sales programs and investment credit programs (see Chapter Three for a further description of these programs).

Export enhancement tools may also include physical aspects such as the consistency and accuracy of grades, protein and alpha amylase content and choices regarding the variety of wheat to be produced.[12] However, "it has been amply demonstrated that grading results in increased demand for grain"[13] and thus, is not specifically addressed in this study.

Physical marketing tools such as the testing of the demand for various wheat varieties are considered of ongoing importance to exporting agencies such as the CWB.[14] As with many physical factors in the export grain marketing package, varietal issues have been studied extensively and thus are excluded from this study.

Export credit programs that allow for concessional loans to importers along with other price based export expansion programs have also been excluded from this study because they are not considered to be a viable alternative for small exporting countries like Canada. Moreover, market based subsidies have been given a low priority by some experts in the Canadian grain industry.[15]

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9 Quilkey, J.J. "Promotion of Primary Products - A View From the Cloister". Australian Journal of Agricultural Economics, Vol.30 (1), 1986, pp.38-52.

10 Ibid.

11 Grigsby, S.E. and P.M. Dixit. "Alternative Export Strategies and US Agricultural Policies for Grains and Oilseeds, 1950-1983." USDA, Economic Services Division, 1986.

12 Canadian International Grains Institute (CIGI). Grains and Oilseeds - Handling, Marketing and Processing. Third Edition, Winnipeg, 1982.

13 Canada Grains Council. Grain Grading for Efficiency and Profit. Winnipeg, 1982, p.9.

14 CIGI. Grains and Oilseeds - Handling, Marketing and Processing. 1982, p.379.

15 Canadian Grain Marketing Summit. "Final Report of the Ten Working Groups." Unpublished Report, 1986.

For purposes of this study, export market development and promotion are defined as non-physical, non-price activities that may be used by an exporter to find new markets for existing and newly developed products, and/or to expand or divert demand from competing exporters.

The process of finding and maintaining export markets is often complex, however, it often includes the following sequence as described by McKinna (1978):

> 1."identify and evaluate export marketing opportunities"
>
> 2."make contact with key personnel who make or influence purchasing decisions"
>
> 3."communicate information and provide services to decision makers and influencers to create a favorable attitude toward both product and supplier so as to increase the likelihood that a purchase will be made."
>
> 4." maintain contact with decision makers and influencers and continue to provide information and services that will encourage re-purchase."[16]

Market development and promotion, however, are only one aspect of the total exporting marketing package. Many "physical" factors such as price, distribution networks, product specifications, freight charges and accompanying services "all blend imperceptibly to produce the overall sales result."[17] According to McKinna (1978):

> "Market development activities cannot be expected to produce sales in and of themselves; they are just one of the many factors that influence sales. World trade in agricultural products is influenced by many complexly entangled factors, most of which lie beyond the control of the individual exporter. Agricultural exporting takes place in an extremely volatile and competitive environment and exporters must learn to take this as a given factor taking full advantage of opportunities presented by it and minimizing the adverse effects."[18]

However, market prices in the international wheat markets can create a situation whereby if prices are low enough, buyers might not expect follow-up sales servicing and thus prices would dominate the decision making process. Given this market situation, buyers may

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16 Ibid, p.1.

17 McKinna. 1978, p.1.

18 Ibid, p.2.

choose to purchase from the lowest bidder with only a slight regard for promotional aspects and physical specifications.[19] Conversely, during times of high prices, grain buyers might become more discriminant in their buying decisions.

Although marketing and promotion may sometimes appear less than critical to a commodity group or to a country's exporting success, it has been strongly justified in the business sector. Kotler, McDougall and Armstrong (1988) argue that the concept and subsequent implementation of marketing was adopted most rapidly "in consumer packaged goods companies, consumer durables companies and industrial equipment companies; in that order."[20] However, producers of commodities have been late in adopting a marketing strategy and "many (commodity groups) still have a long way to go".[21]

Some of the theoretical bases behind commodity promotion has been derived from advertising theory, but this study distinguishes between the two because limited consumer (media) based advertising takes place in the international wheat trade. Advertising is thus considered to be activities conducted through the media and generally targeted to the consumer. Promotion, on the other hand, is generally targeted towards the processors of the product (eg. wheat millers) and generally does not involve mass media. Consumer promotion is not a commonly used agricultural marketing activity as it is usually only relevant when introducing wheat or a wheat based product into a new market.

Other related aspects of agricultural export market promotion include market intelligence, information gathering in various markets and the monitoring of farm and trade legislation of countries participating in the export market. Some analysts consider these activities to be of on going importance to exporting countries in order to maintain contact with the trade, become aware of all export opportunities that arise, and also to be in a position to lobby against restrictive trade legislation and/or to participate more effectively during international trade negotiations. Furthermore, a high level of knowledge regarding foreign policies allows for adjustment of domestic policies so that an exporting country can most effectively compete in current and anticipated trade environments.[22]

> "While it is not possible to "zero base" the policy making process and create a best-fit set of policies and programs for today and the estimable future, one of the goals or objectives of any progressive industry must be to strive toward optimal development of its resources through the fullest possible knowledge of the current and future market environment.[23]

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19 Ibid, p.2.

20 Kotler, P., G.H. McDougall and G. Armstrong. Marketing. Canadian Edition, Prentice Hall Canada Inc., 1988, p.17.

21 Ibid, p. 17.

22 National Grains Bureau. "The Road Not Taken: An Opportunity for the Canadian Grains and Meat Industry". Agriculture Canada, Grains 2000, Winnipeg, 1988. p.97.

23 Ibid.

1.3 The Importance of Export Market Development and Promotion

Many factors contribute to the success (or failure) of the Canadian grain producer (eg. weather, input costs, production technology, etc.). However, none of these factors overide the importance of foreign wheat markets. Within these markets, the consumption of wheat, and thus the demand for it, are affected by several factors beyond the control of exporting producers and/or exporting governments. Examples of these factors include the level of domestic production in each importing country, changes in tastes and preferences (which are at least partially influenced by culture and tradition), available exports and the level of income.[24] Due to Canada's dependence on foreign markets one might conclude that an emphasis should be placed on activities that could be used to enhance the demand for wheat in export markets.

The costs associated with changing or improving upon any of the physical aspects of the export wheat marketing package are large and often prohibitive because of the large capital costs associated with grading, handling and transportation.[25] Furthermore, any changes to the classes of wheat produced may also lead to increased costs related to the associated licensing, regulation and research costs of introducing new varieties. Such changes have been shown to put increased pressures on the grading, handling and transportation systems.[26] In contrast, improvements in the non-physical aspects of the marketing package (for example, export market development programs) can involve smaller capital expenditures and lower overall levels of investment.[27]

As the export wheat market becomes increasingly competitive due to increased production in many historically significant markets such as the UK, China and India, it becomes more important that market development and promotional efforts be undertaken in a way that enhances the competitive position of Canada in an effective and economically efficient manner.

Further support to the importance of export market development activities is given in the proceedings of the Canadian Grain Marketing Summit (1986) "Final Reports of the Ten Working Groups". Included in the report were findings and recommendations regarding "barriers to market penetration, enhancement of Canadian marketing tools, and export co-operation". Comments and findings regarding barriers to market penetration concluded the following:

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24 Riepe, J.R., D.L. Watt and W.W. Wilson. "Differentiated Demand for Wheat in International Competition." Paper presented at the AAEA Summer Meetings, Michigan State University, August, 1987.

25 McKeague, D., M. Lerohl and M. Hawkins. "The Canadian Grading System and Operational Efficiency within the Vancouver Grain Terminals." Agribusiness. Vol.3 (1), 1987, pp.19-42.

26 Ibid.

27 Canadian Grain Commission. Wheat Grading in Western Canada 1883-1983. Agriculture Canada, 1983.

"Generally, agreement existed that market intelligence and market sensitivity are areas where this Canadian industry, dependent on serving so many markets with so many products, requires a high level of commitment. Market development will require increasingly sophisticated approaches to meet and create demand. The use of capital and overseas investment to achieve market gains is a new reality to which industry must address itself. A constant review of where best to apply governmental assistance for enhanced trade must be continually reviewed to gain maximum benefit. An enhanced human resource component to do battle in an increasingly sophisticated and segmented market was highlighted. We must be increasingly well-equipped with the necessary resources, human skills, customer contact, and long term relationships essential to building solid long term markets. Sharing risk between government and private sector was seen as essential to support private sector initiatives in future market development. A cooperative, integrated approach by all industry participants is necessary to achieve a coordinated export market thrust".[28]

Comments and conclusions regarding the enhancement of Canadian marketing tools included:

"The enhancement of Canadian marketing tools to promote exports would either: a) induce importing nations to increase grain imports (demand creation) or, b) capture market share from other grain exporting nations such as the US or Australia (demand diversion). Furthermore this may also be necessary to maintain current market share. ... Discussion of export enhancement tools in a Canadian context resulted in agreement to the following basic tenets: 1. Exports should not be directly subsidized through credit and/or price subsidies. 2. An effective market development program is Canada's best export market enhancement tool. 3. Canada is recognized as a consistent supplier of high quality (sic) and a wide range of grains and oilseeds. This should not be compromised. 4. Government programs, if any, to support producer incomes must be separated from the marketplace. ...."[29]

Comments and conclusions regarding export co-operation included:

"Continuing dialogue should be facilitated within the industry by governments, farm organizations and commercial organizations to: i) improve the level of information among all participants, ii) slow down or reverse the race to a trade war, and iii) discourage the use of commodity specific subsidies. (And) ... organize a Canadian grain industry team to arrange the dissemination of information."[30]

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28 Canadian Grain Marketing Summit. 1986, p.6.

29 Ibid, pp.13-14.

30 Ibid, p.18.

It might be surmised that the findings and conclusions of the grain marketing summit support and recognize the importance of increased efforts by Canada in the area of export market development and more specifically increased use of non-price, demand enhancing, marketing tools.

A similar report released by the National Grains Bureau (Dec., 1988) as part of the "Grains 2000 project"[31] similarly recommended increased efforts (by Canada) regarding the gathering and dissemination of market information from foreign markets.[32]

> "In order for Canadian agriculture to remain competitive in the international market, and in light of the fact that such a high percentage of our production is exported, a number of improvements to the system of market development, market intelligence and market information are needed."

The study was coordinated by the National Grains Bureau and completed by a research team of producers, government and industry representatives. The study recommended work be undertaken to address the issues and concerns in three specific areas, outlined as follows:

> 1. "Improved capability to gather timely information and intelligence on foreign markets;
> 2. An improved capability to analyze and interpret this information, as well as ensuring that it is disseminated to those that need to know in a form that is most useful; and
> 3. A method of educating foreign buyers on the attributes of Canadian products and utilizing this facility as a tool to improve linkages, contacts and loyalty."[33]

Although the Grains 2000 study is preliminary in nature, it is considered by some analysts, to be an authoritative representation of the views held by a large portion of Canada's grain industry.

1.4 Problem

The literature shows that pricing and technological changes in the international grain markets have been studied extensively (a review is given in Chapter Three). On the other hand, relatively little research regarding export market development and promotional activities has been completed (see Chapter Two). However, the three completed studies

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31 The purpose of Grains 2000 is to develop policies for government and industry that are industry driven and directed, using government resources to undertake research and administer the program. In addition to government, producer and agricultural experts from industry form a major component of the project. This approach to policy and program development has been termed "unique" by some analysts, as the Grains 2000 group is now a permanent part of the National Grains Bureau in Winnipeg. (See Chapter Three, section three)

32 National Grains Bureau. Winnipeg, 1988.

33 National Grains Bureau. 1988, p.139.

in this area that have been published, have all concluded that the returns to investment in export market development activities are high (US Wheat Associates,[34] Williams,[35] Pointon,[36]).

The promotion of commodities in export markets is often termed as "essential or necessary" by exporters, but the (economic) impacts of these activities are not clear. Public and private investment (and research) to enhance agricultural output and revenue can be classified as either supply or demand oriented. Supply related investments have concentrated on research to improve agricultural productivity and commodity quality considerations. Demand oriented investments, such as commodity promotion, on the other hand, attempt to shift rightward, the demand schedules for agricultural commodities. Williams (1985)[37] argues:

> "Although researchers have long debated the sociological implications, economic impacts, and returns to supply-oriented investments, less concern has been directed at the farm-level impact and returns to demand-oriented investments."

Thus a secondary problem is the lack of information that is available regarding export market promotion activities. This study provides information regarding the market promotion activities of major wheat exporters as an attempt to improve the amount of information available.

Many researchers have completed research into the physical aspects of the marketing package[38] and studies related to the Canadian grain marketing package are consistent with this supply side emphasis. In the US, many studies have been completed evaluating the effects of generic advertising on domestic U.S. sales of agricultural commodities,[39] however, little published work has been completed on the impact of export market development and promotion in the wheat industry. It appears as though the only research completed that attempts to quantify the benefits of export market development activities

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34 US Wheat Associates. "Wheat Exports - Market Development Programs Increase Producer Income." USWA, Washington, D.C., 1986.

35 Williams, G.W. "Returns to US Soybean Export Market Development." Agribusiness. Vol.1 (3), 1985, pp.243-263.

36 Pointon, R.M. "Measuring the Gains from Government Export Promotion." European Journal of Marketing. Vol. 12, 1978, pp.451-462.

37 Williams, G.W. 1985, p.243.

38 A recent example of research in the area of the economics of growing high protein CWRS wheat in Canada is M. Veeman. 1987. "Hedonic Price Functions for CWRS Wheat." Two examples of research completed regarding the grading and handling of wheat in Canada are: Hoar, W.J. "On the Primary Grain Handling Situation." M.Sc. Thesis, U of A, 1982 and McKeague, D.V. "Grain Grading and Handling Efficiency at the Vancouver Terminals." M.Sc. Thesis, U of A, 1985.

39 Williams, G.W. 1985. p.243. Work in this area has been completed by the following researchers, Quilkey, Sharpe, Chang, Clement, Henderson and Ely, Hochman, Regev, Ward, Nerlove and Waugh, and Thompson and Eiler.

was a private study by the U.S. Wheat Associates (1986).[40] Using the results of a study carried out by the consultants Chase Econometrics, the U.S. Wheat Associates claim that for every dollar spent on export market development, 100 dollars of additional income is returned to wheat producers and 133 dollars is returned to the U.S. economy.[41]

Similar research performed by Williams (1985) on "Returns to US Soybean Export Market Development" calculated that between 1970 and 1980 returns to investment in soybean export market development and promotion were in the order of 57.7 to one for soybean producers.[42]

Research regarding returns to export market development in non-agricultural industries was completed by Pointon (1978). Pointon concluded in his study of the gains from government supported export promotion, that a return of approximately 20 dollars was achieved for every dollar invested.[43]

Organizations such as the Canadian Wheat Board (CWB)[44] and the Australian Wheat Board (AWB)[45] have not publicly discussed the issue of estimated return on investment while other agencies such as the US Wheat Associates have been vague as to the methodology used to support their conclusions. The result of this, is a lack of verifiable research in the area of export development and promotion in the international wheat trade. The research that has been published in this area all appears to conclude that impressive returns to investment have been achieved. Due to the suggested effectiveness of export market development and commodity promotion activities it logically follows that buyers of agricultural commodities would have similar impressions of these activities if, in fact, these claims are true.

Thus, one problem to solve is whether or not those individuals who are actively involved in the wheat trade have perceptions of market development and promotional activities that support the conclusions of the quantitative studies released by the US Wheat Associates (1986) and Williams (1985).

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40 The US Wheat Associates (USWA) is the export market development organization representing the US wheat industry. Funding is provided by per-bushel check-off funds from wheat producers in the fourteen major wheat producing states, and the federal government.

41 US Wheat Associates. "Wheat Exports - Market Development Programs Increase Producer Income." Washington, D.C., 1986.

42 Williams, G.W. 1985, p.255.

43 Pointon, R.M. 1978, pp.451-462.

44 The CWB is a federal government agency charged with controlling the export of designated grains such as wheat, barley, and oats grown in western Canada. A further description is given in Chapter Three.

45 The AWB is a federal government agency charged with controlling the export Australian grains such as wheat, barley, and oats. A further description is given in Chapter Three.

Other problems addressed include assessment of the potential benefits of increased promotion in the western European market and the importance of market intelligence and information gathering infrastructures in foreign markets.

1.5 Objectives

Formal study into the impacts of agricultural export market development and promotion appears to be lacking, although producer investment in these activities through such agencies as the CWB and the U.S. Wheat Associates continues to take place with unclear awareness of the impacts. For this reason an initial objective of study is to increase the level of understanding regarding export market development and promotion in the international wheat trade. A major goal of the study is to gather perceptions that "experts" have towards the export market development and promotional activities of major wheat exporting nations.

Other objectives are:

1. to describe the perceptions industry experts have towards the role and importance of market promotion in the export marketing of wheat;
2. to describe the promotion and market development activities of the five major exporters of wheat: Argentina, Australia, Canada, the EEC and the United States;
3. to describe how "non-price" promotional activities might possibly assist in the achievement of customer loyalty and increased long term demand;
4. to identify opinions regarding the relative effectiveness of various types of market promotion;
5. to identify and assess the opinions of industry experts regarding the strengths and weaknesses of the Canadian wheat marketing package; and
6. to gather opinions regarding the importance of using foreign postings to gather market policy information.

The central hypothesis of the study is that commodity promotion and market development efforts and investment positively affect the demand for a wheat. Furthermore, the study hypothesizes that non-price marketing factors can contribute to the differentiation of an exporter's wheat and marketing services from those of competitors. Finally, the study hypothesizes that institutional and policy constraints restrict the potential benefits of increased promotion in Western European markets.

2 OVERVIEW OF THE INTERNATIONAL WHEAT TRADE

2.1 Structure and Environment

The world wheat market has, historically, been highly concentrated. Current statistics show a continuation of this, although the participation of various countries within the trade have changed over time. For example, the United Kingdom (U.K.) was a large importer

during the 1960s, but has since become a net exporter of grain during the 1980s. The Soviet Union, conversely, during the early 1960s, was a large exporter of wheat and since the early 1970s has become a large importer.[46]

To date during the 1980s, the five largest wheat exporters, Argentina, Australia, Canada, the EEC and the US, have accounted for over 90 percent of all wheat exports. Table 2.1 shows the percentage market share of the five major wheat exporters for three time periods: 1960-69, 1970-79, 1980-87 and United States Department of Agriculture (USDA) projected market shares for the year 2000.[47] The market shares of these exporters have remained reasonably stable except for the EEC which has shown an upward trend.

Table 2.1. Market Shares of the Major Wheat Exporters for Three Periods - 1960-69, 1970-1979, 1980-1987, and Projections to 2000 (Percentages).

Exporters:	**Argentina**	**Australia**	**Canada**	**EEC**	**USA**	**Others**
1960-69	6.0	11.9	22.1	8.7	38.6	12.6
1970-79	4.2	13.0	20.5	9.3	42.2	10.9
1980-87	6.1	13.2	19.5	14.7	38.2	8.3
USDA Projection for 2000	8.0	9.0	20.0	22.0	35.0	5.0

Source: USDA - Economic Research Service, International Economics Division, "Patterns and Trends in World Wheat Competitiveness" 1987.

In recent years, Canada has maintained approximately a 20 percent market share of the world wheat market and has been the predominant supplier of high quality milling wheat. Prior to the '60s Canada had a larger share of the world market.

In 1966 McCalla described the international wheat market as a cooperative duopoly with Canada as the price leader, the USA as price follower and a fringe of other competitors acting as price takers. Market power was defined as the willingness and ability to hold stocks with only Canada and the USA having this ability.[48] Part of Canada's inventory capacity was on farm storage enforced through the "quota system".[49] The structure of power in world wheat markets enabled Canada and the USA to hold stocks in years of high

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46 Shane, M. "Patterns and Trends in World Wheat Competitiveness." United States Department of Agriculture, Economic Research Service, International Economics Division, 1987.

47 Ibid, p.3.

48 McCalla, A.F. "A Duopoly Model of World Wheat Pricing." The Journal of Farm Economics. Vol.48 (3), 1966, pp.711-727.

49 The quota system is regulated by the CWB. It is the method of controlling the level of farmer deliveries of designated wheat, oats and barley. It is based on acreage seeded and assigned by producers on their permit books.

production and reduce stocks in years of lower world production. The result was a period of stability in the wheat trade due to the smoothing effect of controlled supplies by Canada and the USA. Stability was enforced by the International Wheat Agreement which established allowable price ranges for wheat, with Canadian No. 1 Northern being the reference class.[50]

Several theories have been put forward describing the reasons for the occurrence of price leadership by Canada. McCalla (1966) proposed several explanations for this such as: Canada's large export volumes (although the USA exported more), various non-price factors such as quality standards and the CWB's direct control over stocks versus indirect control by the USDA. McCalla concluded that USA foreign policy was the main factor contributing to Canada's price leadership. In other words, McCalla suggested that the USA, by allowing Canada to set prices, would be able to simplify her export (subsidy pricing and loan rate) policies, and in addition, avoid the image of being a large country overly dominating commercial wheat markets and small countries.[51] In addition, it has been suggested by some researchers that the highly visible CWB prices were used to advantage by the large multinational shippers in the US.

A somewhat different hypothesis for Canadian price leadership was proposed by Oleson (1979). Oleson suggested that price leadership was to a great extent caused by the heterogeneous quality of wheat. Oleson also argued that researchers who assume US Hard Red Winter to be completely substitutable for CWRS wheat are incorrect. Other analysts at this time acknowledged the potential uniqueness of wheat by class and origin but ultimately assumed them to be homogeneous.[52]

Until the late sixties, high protein wheat was not produced in significant levels outside of Canada. At this time both the USA, and to a lesser extent Australia, increased production of high protein wheats (Wilson, W. et al, 1986, p. 6). Development of the Chorleywood baking process[53] in the early sixties decreased the need for high protein wheat in the production of raised (leavened) bread. However, until this time, Canada faced a relatively inelastic demand function and was able to establish prices for No. 1 wheat which were closely followed by other exporters (Wilson, W. et al, 1986, p. 6).

Although five major exporting countries were supplying 80 percent of the wheat, Canada and the USA supplied 60 percent.[54] This concentration of market supply allowed for the

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50 Wilson, W. et al. 1986, p.6.

51 McCalla, A. 1966, p.719

52 Wilson, W. et al. 1986, p.6.

53 The Chorleywood process utilizes high speed mixing technology developed (in 1965) by the Flour Milling and Baking Research Association (Chorleywood, U.K.) in order to reduce the threshold levels of gluten strength and protein in wheat that is used to manufacture dough.

54 McCalla, A. 1966, p. 713.

existence of the duopoly. On the demand side, the commercial wheat market[55] was widely dispersed among several medium-sized and many small-sized importers. Six countries (the U.K., West Germany, Poland, the Netherlands and Japan) purchased approximately 50 percent of the world's imports with more than 50 small importing countries comprising the balance.[56] For this reason, the demand side was considered to have little market power.

Increasing exports to China (1960s), the USSR (late 1960s, 1970s) and the refusal of the US to contribute to communist markets until the early seventies, led the US to believe that they were entitled to an increased share of the non-communist markets during the late sixties. To carry out this plan, the US used export support programs that resulted in price competition (for non-communist markets).[57] While attempting to maintain prices, Canada increased stock levels in 1969, 1970 and 1971 to 101, 222 and 110 percent of annual production, respectively (see Table 2.2). During the same period, US stocks remained constant at 61 percent of annual production.[58]

During this period, increased Australian stocks and price cooperation led Alaouze et al. to suggest that an export "triopoly"(cartel) existed between Canada, Australia and the USA, with Canada as price leader.[59]

Despite Canada's apparent efforts to maintain the role of price leader and residual supplier of wheat, changes in market structure at this time contributed to McCalla changing his view of a duopoly world wheat market. Increasing exports from Australia and France combined with a decreasing number of major wheat importers (eg. the U.K., EEC, Japan and China) led McCalla to believe the international wheat market was an oligopoly on the selling side and an oligopsony on the buying side.[60] However, the relevance of this pricing model appeared to be short lived due to the reduction of stocks beginning in 1971. In demonstration of the potential influence of power by major importing countries, the massive purchase of grain by the USSR during 1972 effectively served to break down the triopoly suggested by Alaouze, et al, and the oligopoly suggested by McCalla. Market power required stockholding, and because stocks were reduced by increased demand, the structure appeared to change to a more competitive structure after 1972.[61]

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55 Defined by McCalla as excluding communist countries such as the USSR, China and any wheat given as aid. At this time political philosophy in the US dictated that it was wrong to sell wheat to the USSR.

56 Ibid, p.713.

57 Ibid.

58 Wilson, W. et al. 1986, p.41.

59 Alaouze, C.M., A.S. Watson and N.H. Sturgess. "Oligopoly Pricing in the World Wheat Market." American Journal of Agricultural Economics. Vol.60 (2), 1978, pp.173-185.

60 Spriggs, J.M., D. Bessler and M. Kaylen. "The Lead-Lag Relationship Between Canadian and US Wheat Prices." American Journal of Agricultural Economics. Vol.64 (3), 1982, pp.569-572.

61 Wilson, W. et al. 1986.

Table 2.2. Stock as a Percentage of Production - Major Wheat Exporters and World Average- 1968 to 1987. (percent[1])

Year	Argentina	Australia	Canada	France	USA	World
1968	14	51	76	9	52	35
1969	11	71	101	6	61	32
1970	16	47	222	8	61	24
1971	14	19	110	10	61	23
1972	12	9	68	8	38	18
1973	12	17	62	8	20	19
1974	13	15	56	16	24	18
1975	9	23	48	9	31	18
1976	7	18	56	10	52	24
1977	14	9	61	9	58	22
1978	10	25	71	13	52	23
1979	10	27	62	12	42	19
1980	10	18	45	11	42	18
1981	10	30	40	7	42	19
1982	5	27	37	12	56	20
1983	7	34	35	5	58	20
1984	6	26	34	14	54	21
1985	4	46	36	19	55	28
1986	3	35	35	26	78	30
1987	2	23	41	21	87	31

[1] Calculated as ending stocks divided by production.

Sources: 1960 to 1984, Foreign Agriculture Circular, Grains: World Grain Situation and Outlook, various issues.
1985 to 1987, IWC, World Wheat Statistics, 1987

In 1978, it was argued by Alaouze et al. that because the major exporters were concerned with market share, it is inevitable that the triopoly would reform, stocks accumulate and lower prices prevail.[62] However, Table 2.2 shows that the stock levels of Australia during the period 1972 to 1980 ranged from 9 to 27 percent of annual production. Canadian and US stocks varied from 45 to 71 percent and 20 to 58 percent, respectively, during the same time period.

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62 Alaouze, C.M. et al. 1978, p.183.

Since 1972, Canada's role as price leader has also been subject to debate. Lee and Cramer (1985) found statistical evidence indicating that some US cash markets were the price leaders during 1972-81. It has been hypothesized that the CWB at this time switched to a type of formula pricing (based on US futures prices) in order to maintain sales and keep inventories low. From 1981 to 1987, increases in EEC exports and the highly visible interaction of cash and futures markets (subject to the US loan rate) appears to have contributed to price setting dominance by the USA.[63] In response to this, Canada and Australia reduced stock levels. In addition to evidence suggesting US price leadership, current international wheat market appears to be functioning in ways characteristic of oligopsonistic power due mainly to the dominant import position of the USSR, China and Japan (approximately 31 M tonnes in 1987 - see Table 2.3). On the demand side, large importers exercise market power by the application of tariff schedules which optimize their purchasing position.[64]

In summary, several theories have been developed regarding international wheat market behavior, but the analysis appears to have failed in its attempt to provide a robust model of price formation.[65] Reasons for this might include the cyclical nature of commodity markets, geographical changes in supply and demand along with changes in the many institutional components of world wheat trade (Oleson, 1979).

There is little consensus among analysts regarding pricing behavior in international wheat markets; however, current functioning of international wheat markets appears to support the theory of oligopsonistic power on the demand side with US price leadership on the supply side.

In the US, wheat price discovery occurs publicly at three major "futures" exchanges, each specializing in one or more varieties of wheat.[66] Since 1985 however, the use of variable export subsidies as legislated by the Farm Security Act of 1985 has created a situation whereby the actual export prices are no longer dependent on market prices. In addition to export subsidies the US affects markets through the setting of target and loan rates which influence the flow of grain into cash markets.[67]

The following list covers some of the factors that have contributed to changes in the structure of the international wheat markets:

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63 Wilson, W. et al. 1986, p.7.

64 Schmitz, A., et al. Grain Export Cartels. Ballinger Press, Cambridge, USA, 1981.

65 Gilmour, B. and P. Fawcett. "The Relationship Between US and Canadian Wheat Prices." Canadian Journal of Agricultural Economics. Vol.35 (3), 1987, pp.571-589.

66 The base wheat traded in Chicago is soft red winter, in Kansas City it is hard red spring, and in Minneapolis three wheats are traded namely, hard red spring, durum, and white wheat. Source: US Wheat Associates, 1987.

67 A more complete description of US government programs is given in Chapter Three.

Table 2.3. Imports of Wheat by Major Importing Countries - Wheat and Wheat Flour, 1965 to 1987, (1,000 MT)

YR	EEC	USSR	BRAZIL	CHINA	JAPAN	EGYPT	INDIA	WORLD TRADE
66	4,709	9,187	2,321	372	3,553	N/A	7,645	61,225
67	4,406	4,683	2,637	265	4,260	N/A	6,344	57,070
68	4,719	1,534	2,485	400	4,028	N/A	6,697	51,858
69	4,233	147	2,425	20	159	1,945	3,563	45,557
70	3,356	1,105	2,081	5,040	4,425	2,220	3,031	50,620
71	4,122	315	1,855	3,660	4,834	2,835	2,377	53,934
72	3,605	3,409	1,475	2,967	4,965	2,591	1,553	52,541
73	7,632	15,000	2,950	5,289	5,486	3,040	1,000	67,965
74	5,678	4,389	2,440	5,831	5,353	3,180	3,571	63,267
75	5,343	2,934	1,663	5,675	5,404	3,489	5,392	63,139
76	6,435	10,096	3,755	2,287	5,923	3,588	6,427	66,810
77	4,169	4,559	3,504	3,156	5,522	3,956	3,859	61,509
78	5,387	6,340	3,104	8,556	5,764	4,537	547	71,581
79	4,543	5,024	3,738	8,058	5,584	5,541	311	71,200
80	4,482	11,686	4,868	8,680	5,571	5,156	222	85,985
81	4,840	14,911	3,855	13,775	5,930	6,755	385	94,044
82	4,755	19,645	4,589	13,223	5,637	6,012	2,625	100,745
83	3,385	20,140	3,879	12,963	5,597	6,188	4,342	96,145
84	3,429	20,560	4,320	9,786	5,901	7,331	2,495	100,420
85	2,116	28,156	4,933	7,429	5,748	6,819	146	104,119
86	2,042	16,465	2,495	6,821	5,579	6,432	7	82,089
87	n/a	16,000	2,897	8,904	5,780	7,187	82	91,017

Sources: 1965 to 1986, IWC, World Wheat Statistics.
1986/87, Canadian Grains Industry, Statistical Handbook, 1988.

a) Decreased demand for high protein wheat caused by the advent of improved milling technology such as the Chorleywood process (developed in 1965 by the Flour Milling and Baking Research Association in the U.K.) which utilizes high speed mixing to reduce the threshold levels of gluten strength and protein required to produce high rising pan bread.

b) Increased supplies due to technical improvements in many countries.

c) Increased supplies due to improvements in wheat varieties, and production technology (eg. fertilizer, herbicide, fungicide use etc.) sometimes referred to as the "Green Revolution".

d) The establishment of the Common Agricultural Policy in the EEC which both stimulates internal production and discriminates against foreign imports.

e) Increased production of lower protein, higher yielding wheats in the US, Australia and the EEC.

f) Increased demand from centrally planned countries.

Centrally planned countries such the USSR and China currently dominate the market for high protein (red) milling wheats.[68] During the eighties Canada has been a price follower and has maintained a policy of low stock holdings through large sales to these countries which has effectively maintained/expanded its market share.

In many markets the trend has appeared to be for wheats other than high quality red spring milling wheat, however, Canadian Western Red Spring (CWRS) continues to be the major wheat class produced domestically. While it is advocated that Canada continue to produce CWRS in the areas best suited for its production, research has been recently presented that shows producer receipts would increase if lower protein, higher yielding varieties of wheat were to be produced in higher moisture areas.[69] Interest in wheat market requirements has been heightened by the recent reduction in producer incomes due to the large volumes of subsidized wheat being offered in world markets. Much of the surplus has been a result of goverment policies, however, production and processing technologies have also played a role in increasing world supplies.

The United Kingdom (UK) as a Grain Exporter

In the past ten years the UK has moved from being a net importer of cereals to a net exporter. Wheat and barley are the major crops produced. Since 1978, wheat yields have increased from four tonnes per hectare to almost seven. Over the same period barley yields have increased by nearly 50%.[70]

The average trade in wheat and wheat flour for the UK, including trade with other EEC countries over the period 1984 to 1988 is 1.565 M. tonnes imported compared to 2.966 M. tonnes exported. Since 1981 the UK has consistently maintained a positive balance of trade in cereals.[71]

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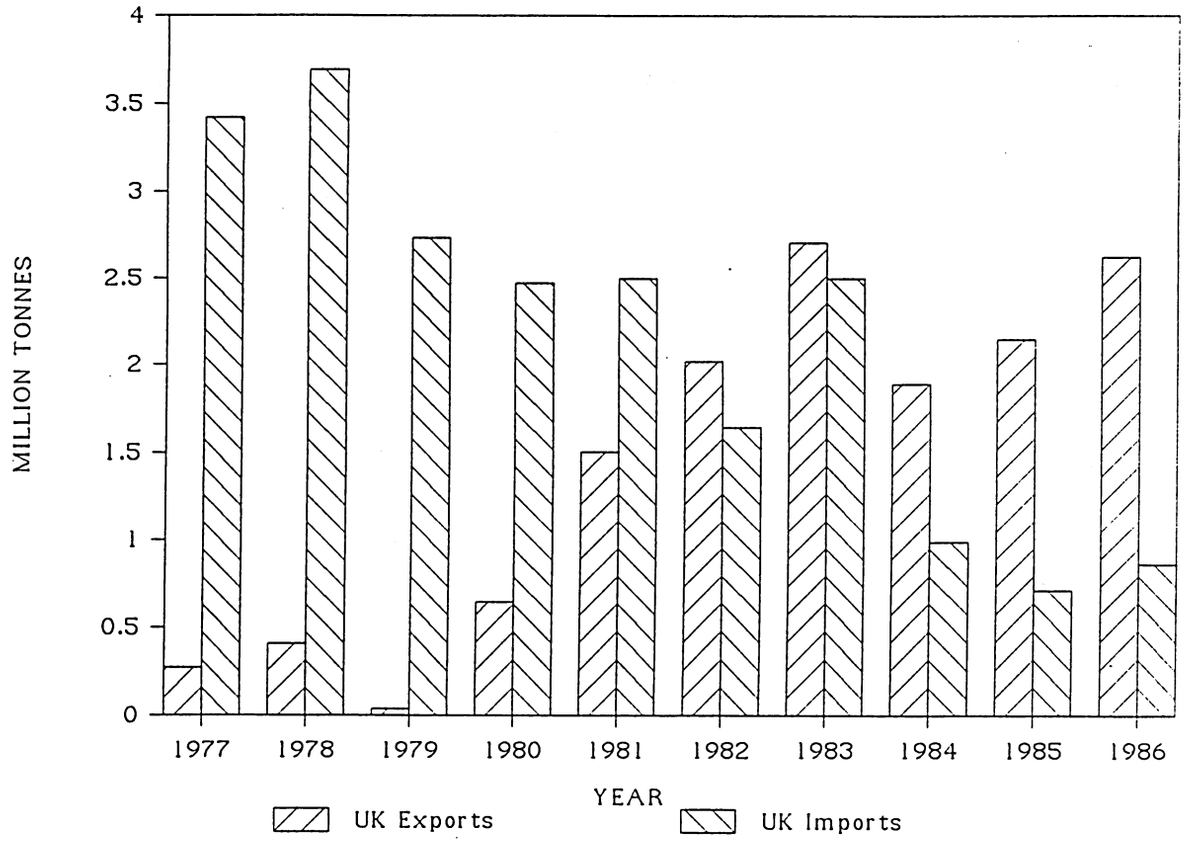
68 Carter, C. et al. "Varietal Licensing Standards and Wheat Exports." Canadian Journal of Agricultural Economics. Vol.34 (4), 1986, pp.361-372.

69 Veeman, M. "Hedonic Price Functions for Wheat in the World Market: Implications for Canadian Wheat Export." Canadian Journal of Agricultural Economics. Vol.35 (3), 1987, pp.535-552.

70 British Cereal Exports. "Export Report." London, November, 1988.

71 Home Grown Cereals Authority. "Supplement to Weekly Bulletin". Vol.23 (32), 1989.

Figure 2.1. UK Balance of Trade
Wheat & Wheat Flour



Adapted From: IWC. World Wheat Statistics, 1987, (exports)
Canadian Grains Industry, Statistical Handbook, 1988, (imports)

2.2 EXPORT MARKET DEVELOPMENT AND PROMOTION

2.2.1 Overview

Market development may be the single most important component of the exporting process, because exports would not occur unless markets existed. Occasionally, importers take the initiative and make contact with exporters when seeking agricultural commodities, but more commonly it is the exporter that seeks out potential buyers.[72] According to McKinna (1978), the major objective of export market development is to expand export sales. Secondary objectives include reducing annual variability in export sales and the expansion of the customer base.[73]

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72 McKinna, D.A. 1978, p.1.

73 Ibid, p.1.

Agricultural export market development and promotional activities are normally carried out through government agencies, (for example the CWB and CIGI in Canada) or through the private sector with government financing and assistance.[74] Government involvement in this area is considered necessary due to the competitive nature of agricultural export markets and the various import restricting policies of some importing countries. A second reason for government involvement is that private firms, under such circumstances, can not easily justify undertaking export promotion on their own because the benefits are unlikely to completely accrue to the firm making the investments.[75]

Export market development programs have been described by Grigsby and Dixit (1986), as activities primarily undertaken in importing countries to expand their importation of a product(s) from an exporting country. Grigsby and Dixit further point out that in the US, these programs are generally undertaken in cooperation with public or private agencies in the targeted country in an attempt to expand US agricultural exports through changes in the behavior of consumers and producers in the country. This also appears true for Australian and Canadian based promotion.

Government programs designed to promote (or enhance) agricultural exports generally follow one of three broad strategies. Firstly, programs may be designed to expand export demand through non-price incentives, secondly programs may be used to increase exports by reducing prices that importers pay.[76] A third method of expanding export demand is by enhancement of the physical product through improved grading and quality standards, and in particular, the reliability and consistency in their application.[77]

An example of the impact of physical aspects was the adoption of protein grading. During the 1960s the US and Australia were the first to adopt protein grading and segregation. Canada did not guarantee minimum protein levels until 1971 and thus "the Americans (and to some extent the Australians) seized on this as a way of making inroads into our (Canada's) quality markets and began to offer their Hard Red Winter wheats at specified protein levels."[78]

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74 For example in the US the Foreign Agricultural Service (FAS) branch of the United States Department of Agriculture (USDA) provides assistance and financial backing for the US Wheat Associates.

75 Grigsby, E.S., and P.M. Dixit. "Alternative Export Strategies and US Policies for Grain and Oilseeds, 1950-83." USDA, Economic Research Service, International Economics Division, 1986.

76 Grigsby, S.E. and P.M. Dixit. 1986, p.4.

77 An example of a grading innovation in the 1960s was the introduction of mininum protein standards by the US. (Canadian Grain Commission, "Wheat Grading in Western Canada - 1883 to 1983." Winnipeg, 1983).

78 Canadian Grain Commission. Wheat Grading in Western Canada 1883-1983. Agriculture Canada, 1983, pp.97 and 109.

Other related activities that can relate directly/or indirectly to one or more of the above three major methods of expanding export demand include; the licensing standards of new crop varieties, method of grading and varietal distinguishability (eg. visual), special credit and currency programs, trade negotiations and barter agreements.

2.2.2 General Examples of Agricultural Export Market Development and Promotion

In agricultural markets the "non-physical/non-price" marketing activities commonly used include the following: variety and product mix, long term and bilateral agreements, technical support for short courses and seminars, trade missions, personal contact through foreign sales offices and trade missions, the provision of information regarding export programs and legislation, publications outlining crop size and qualities, along with consumer targeted promotion and advertising of processed food stuffs.[79]

Three approaches to altering consumer and producer demand for agricultural products (in general) are used according to Grigsby and Dixit; these include demand promotion, technical assistance and trade servicing.

Demand Promotion

> The aim of demand promotion is to increase final product demand through brand and generic advertising, point-of-sale promotions and public relations. Demand promotion is targeted towards the final consumer in importing countries to increase product awareness and to influence consumer attitudes towards an exporter's products.[80]

> "Direct demand promotion activities are used to increase exports of US final products such as eggs, meat, dairy products, processed fruits, and peanuts. Indirect demand promotion activities are used to increase demand for US intermediate products such as wheat, wheat flour, oilseeds, and feeds. Most product demand programs are undertaken for higher income markets where consumer spending is diversified; for example, in industrialized countries or at high income groups in developing countries."[81]

Technical Assistance

> The aim of this type of program is to increase exports by improving productivity and lowering costs in intermediate sectors that use agricultural imports as inputs. Technical assistance includes activities such as technical and organizational training and the transfer of technology. The objective of this type of promotion is to improve the technology and productive capability of industries that use the agricultural products in question.[82] In the wheat industry this would include milling and baking.

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79 For purposes of this study the term "market promotion" refers to these types of non-physical/non-price export enhancement programs.

80 Grigsby, S.E. and P.M. Dixit. 1986, p.5.

81 Ibid, p.5.

82 Ibid, p.5

Trade Servicing

> Activities within this group deal mainly with the provision of information and the cultivation of customer relations in importing countries. It is directed at the market rather than at an individual producer or consumer. These services are designed to provide market and technical information, demonstrate product quality and reliability of delivery, and create interactions between buyers and sellers through trade teams and exhibits.[83]

A fourth area of market promotion relates to the gathering of market and policy information in an importing country or region. Additional aspects in this area might include keeping abreast of the promotional activities of competitiors, the maintenance of close contact with markets to take advantage of all opportunities, and the monitoring of foreign farm policy so to be able to effectively deal with, or lobby against current and anticipated policies.[84]

2.2.3 Export Market Development and Promotion of Wheat

In the international wheat trade, consumer based commodity promotion would appear to have the most limitations of the market development activities described previously. Purchase decisions regarding such commodities as wheat are made by users (i.e. processors not consumers) which can often limit product identification. The identification problem with wheat is created by the extent to which it is transformed before consumption. An additional consideration is whether or not the processors' buying decisions affect the quality of the end product. When characteristics of the final product are affected by the class and origin of the wheat used, consumers can affect the purchase decisions of processors through demonstration of consumption preferences.[85]

While consumer based promotion is not commonly used, it can, however, be important (and sometimes critical) in markets that have not been previously exposed to wheat based food products or during the introduction of new wheat products.[86]

In the international wheat trade there are essentially four different categories of market development activities[87] designed to influence four major areas of the domestic wheat industry in the targeted importing country.

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83 Ibid, p.5.

84 National Grains Bureau. Winnipeg, 1988.

85 Grigsby, E.S., "Empirical, Analytical, and Measurement Issues in Evaluating Effectiveness of Advertising and Commodity Promotion Programs: Cross-Section and Pooled Analysis", Research on Effectiveness of Agricultural Commodity Promotion, Proceedings from Seminar, Arlington, Virginia, 1985, p.135.

86 Ibid, p.135.

87 These factors are specifically applicable to the export of wheat and are closely aligned with the broader description of commodity promotion given previously.

i) Trade Servicing

This category of market development generally refers to those activities directed towards the importers and purchasers of wheat. Trade servicing usually involves the collection, interpretation and presentation of market information (at no cost) to individuals and countries that are "in the market for wheat". Examples of this include presentations at fairs, exhibitions and the circulation of trade teams with the goal of making and maintaining contacts. The overall aim of trade servicing is to improve market access through the provision of useful information and quality assurrance.[88]

ii) Market Infrastructure Servicing

This category is less direct in its approach to developing wheat markets as the target is the grain handling and transportation rather than the purchasers of wheat. This category involves the provision of information regarding new technologies in grain storage and handling and storage. In this role the exporting country is essentially acting as a consultant to the importing country. The goal of this activity is to enhance the ability of the country to import wheat and in turn develop a loyalty towards the exporting country. An example of this activity might be the completion of a feasibility study on a port storage and handling system.[89]

iii) Wheat Processor Servicing

Not unlike trade and infrastructure servicing this category provides information to millers concerning how to most effectively and efficiently process a particular category or class of wheat. This is usually done with an emphasis on the merits and qualities of the particular exporter's product. The goal of this type of activity is to improve market access by enhancing an importer's ability to use that exporter's category and grade of wheat.[90] Examples of this might include milling and baking seminars that are conducted by CIGI.

iv) Baker, Pasta and Noodle Maker Servicing

Similar to the servicing of millers, this category provides technical assistance that can be used to improve the efficiency of flour use, improve quality and upgrade equipment.[91] Examples of this may include training seminars and conferences that are conducted by CIGI in Winnipeg and various selected importing countries directed towards the final processor of wheat.

Less straight forward is a fifth category of market development and promotion relating to the gathering of market and policy information from importing countries and regions. A general term for this type activity is "Market Intelligence". Market intelligence has a number of objectives including maintenance of knowledge concerning trends, monitoring

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88 Grigsby, S.E. and P.M. Dixit. 1986, p.8.

89 Ibid, p.8.

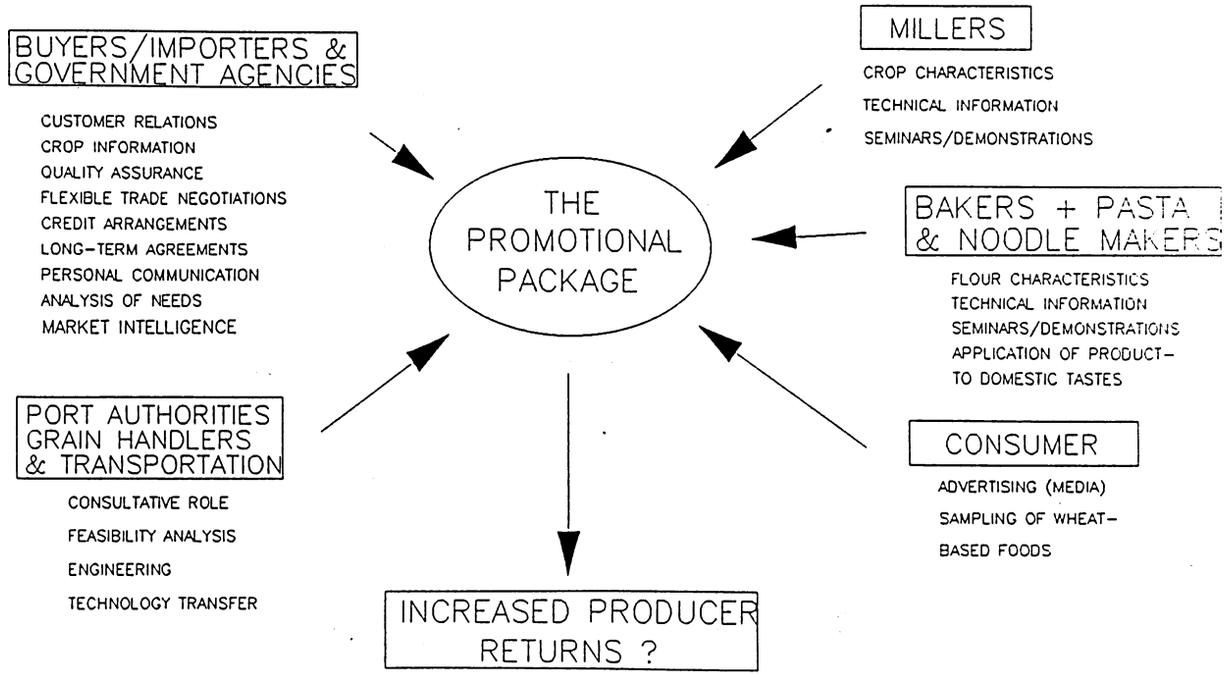
90 Ibid, p.8.

91 Ibid, p.8.

of the relevant policies of importers and exporters, and the development of industry contacts (maintain close contact with markets) in those regions considered important. An additional aspect of market intelligence relates to negotiating trade policy and the possibility of "lobbying" for or against various trade policies.

Figure 2.2 graphically shows potential factors that might be included in the overall market development and promotional package and their relationship to various sectors of the international wheat trade.

Figure 2.2. Potential Wheat Market Development and Promotion Non-Price Factors



3 OVERVIEW OF THE STRUCTURE & MARKETING ACTIVITIES (POLICIES) OF FIVE MAJOR WHEAT EXPORTERS[92]

3.1 Argentina

3.1.1 Overview

Argentina produces wheat varieties similar in quality to US hard red winter varieties. Production of wheat has averaged 10.7 M tonnes and exports 6.2 M tonnes over the last

92 For a more complete description of government policies see: 1) International Wheat Council (IWC). "Wheat Support Policies and Export Practices in Five Major Exporting Countries." London, 1988. 2) Canada Grains Council. Government Policies Supporting Grain Production & Marketing-Canada and the United States. Winnipeg, 1986.

seven years.[93] In Argentina the commercial wheat (grain) industry is regulated by the "Junta Nacional de Granos" sometimes referred to as the National Grain Board. Prior to 1974 the role of the Board consisted mainly of maintaining a minimum support program along with the negotiation of bilateral sales agreements with the governments of importing nations.[94] In 1974 it assumed more power and became the monopoly buyer and seller of wheat, corn and sorghum.[95] The private trade thus became agents of the board and received commissions for carrying out the purchase and sale of wheat, corn and sorghum. Currently, the marketing system in Argentina is mixed with the National Grain Board competing with private and cooperative agencies and multinational shippers for supplies.[96]

The Board is also involved in the fixing and control of export grades and standards. Board officers inspect producer shipments and issue certificates for all grain purchased.[97] Trigo pan (bread wheat) and Trigo fideos (pasta wheat) are classified into three grades based on several factors including weight, foreign material content, and kernel damage.[98] If a producer's wheat meets or exceeds the minimum tolerances for grade two, the Board is then obligated to purchase it at a minimum specified price. The majority of wheat produced is grade one with little grade three produced.[99] This minimum price is fixed once per year by the Board in Australs per tonne. The price is fixed based on current domestic price levels at the five grain exchanges throughout Argentina and existing international market conditions.

Due to the volatility of the value of the Austral an additional fixing of a lower than market, exchange rate trading range with the US dollar is made. For this reason the guaranteed price can often fluctuate due to changes in the Austral/US Dollar exchange rate.[100] Domestic prices are set on three local grain exchanges. The prices reported are for grade two. Wheat of grade one receives a 1% bonus while grades three , four and five receive

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93 Downey, R. "The Argentine Grain Marketing System." Unpublished CWB Report, 1988, p.1.

94 Controller General of the United States. "Grain Marketing Systems in Argentina, Australia, Canada, and The European Community; Soybean Marketing System in Brazil." US General Accounting Office, Washington, 1976, p.6.

95 Ibid, p.6.

96 IWC. "Wheat Support Policies and Export Practices in Five Major Exporting Countries." London, 1988, p.1:1.

97 Ibid, p.6.

98 Institute Nacional De Tecnologia Agropecuaria (INTA). El Cultivo del Trigo. Buenos Aires, Argentina, 1981, pp.91-94

99 Downey, R. 1988, p.8.

100 The risk of trading grain using local currency is such that the Board, in order to encourage participation by grain merchants, facilitates commercial transactions in US Dollars. However, producers are paid in Australs at the official exchange rate which is often different from the market rate. (IWC, 1988).

discounts of 1.5%, 3.0% and 6.0% respectively. Each year the board also establishes a bonus for wheat exceeding 13% protein content, however it is only valid on wheat sold to the Board.[101]

Producer cooperatives are also heavily involved in the Argentine grain industry. The two major cooperatives are the Association Co-operative Argentina (ACA) and the Federation Association Co-operative Argentina (FACA). They both have numerous primary elevators, retail stores, terminals and mills throughout the country.[102]

Financial pressures cause the majority of the crop to be sold at harvest time, although use of futures markets and some farm storage does occur to take advantage of higher prices that usually occur at other times during the year.[103]

The Board and various grain cooperatives are involved in making producer loans to encourage production and ease the burden of obtaining commercial credit. Farm inputs are loaned by the Board at an interest rate of 1% per month and repaid with new crop deliveries at harvest time.[104] Some grain companies also sell farm machinery which is often priced on a volume of wheat rather than a currency basis.[105]

The Board is also responsible for stock policies so that adequate domestic supplies are ensured along with the monitoring of wheat exports. One method used to ensure domestic supplies is the use of export certificates. Export certificates are given to individual companies based on historical levels of exports by the Board to control the amount of grain exported.

3.1.2 Support Policies

Unlike other major exporters, producers in Argentina do not receive subsidies or income transfers from consumers. Grain production in Argentina is one of the few economic activities that has achieved constant growth. Over the past 25 years grain production in Argentina has grown at an average rate of 3.8% per year.[106] Contrary to many other nations, Argentina's wheat industry has been developed in an economic climate that favoured industrial development in the cities at the expense of agriculture. In the past, the

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101 Ibid, pp.91-94.

102 Downey, R. 1988, p.8.

103 INTA. 1981, pp.91-94.

104 IWC. "Wheat Policies and Export Practices in Five Major Exporting Countries." 1988, p.1:1.

105 Downey, R. 1988, p.4.

106 Cirio, F.M. And M. Otero. "Agricultural Trade in Argentina - Impact on the Economy as a Whole and Strategies for the GATT Negotiations." International Conference of Agricultural Economics, Buenos Aires, 1988, p.228.

main vehicles of economic bias against grain production have been policies of export retention, lagging exchange rates, export taxes on grain and grain by-products and the protection of domestic grain processors.[107]

Historically, export levies and exchange rate policies have been a major source of government revenue.[108] The combined effect of both factors has resulted in producers always receiving less than the world price for their wheat. According to Cirio and Otero (1988),[109] on average for four types of grain this amounted to "11% less in the sixties, 37% less in the seventies and 35% less in the eighties".[110] With the aid of the World Bank aimed at stimulating production, the export tax was reduced and temporarily removed as of December, 1987. The only government revenues then generated, resulted from exchange rate manipulation and an export research tax of 1.5%.[111] During the 1987/88 crop year low world prices forced a removal of all export taxes on cereals. With higher prices in 1988 an indirect export tax has since been reinstated in the form of a dual exchange rate. One rate exists for agricultural goods and another higher "free" exchange rate for all other exports.[112]

In addition to policy reform, some analysts believe that continued technology transfer among producers in Argentina could potentially triple wheat production by the early 1990s.[113] Further policy reforms have also been discussed including plans to replace grain export taxes with land taxes which would benefit producers by eliminating the price risk associated with changes in export taxes.[114]

Export subsidies are not used, however some limited export credit is available to Latin American countries. These credits are not associated with the promotion and/or expansion of markets and the Board is not involved in the selection of recipient countries.[115]

3.1.3 Non-price Market Development and Promotion

The National Grain Board is the main regulatory agency in the wheat industry, but unlike exporting agencies in other countries, the Argentine Grain Board does not appear to be formally involved in market development and promotion activities.[116]

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107 Ibid, p.229.

108 IWC, 1988.

109 Cirio, F.M. And M. Otero. 1988, p.231.

110 Ibid, p.231

111 IWC, 1988, p.3:1.

112 Downey, R. 1988, p.1.

113 Ibid, p.2:1.

114 Ibid, p.2:1.

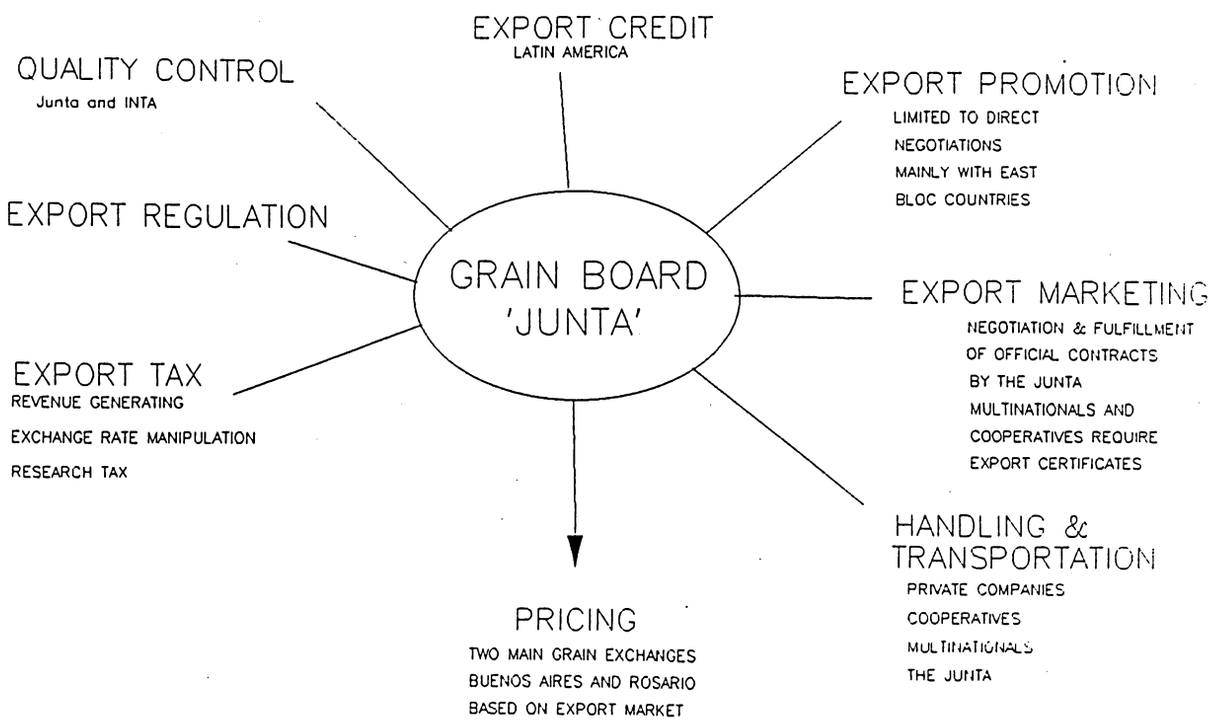
115 Ibid, p.3:2.

116 Australian Wheat Board, Personal Interview, May, 1988.

The Board's main involvement in marketing wheat is arranging and negotiating bilateral trade agreements and government to government wheat sales. The Board appears to undertake limited trade servicing activities and little, if any technical support for its customers. Other non-price marketing factors such as milling and baking support are apparently not used.[117] The only export promotion that takes place is travel missions by the President of the Board and a limited number of staff. These missions of the board appear to be limited to the Middle East and Eastern Bloc countries.[118]

Figure 3.1 gives an overview of the major components of Argentina's wheat marketing system. As shown the Board is involved in all aspects of export marketing and regulation.

Figure 3.1. The Wheat Exporting System
Argentina



3.2 Australia

3.2.1 Overview

Australia produces only about 3% of the world's wheat, but due to a small population base is able to supply about 15% of the wheat traded on international markets.[119] All export

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117 US Wheat Associates, Personal Interview, May, 1988.

118 Australian Wheat Board, Personal Interview, May, 1988.

119 Australian Wheat Board (AWB). "The Australian Wheat Industry." 1987, p. 12.

sales and most domestic sales are the responsibility of the Australian Wheat Board (AWB). Drought is always a concern in Australia, but regardless of weather conditions, excess supplies are now always available for export.[120] From 1982 to 1986 the AWB exported on average about 13 M Tonnes or 78% of total production, making Australia the most dependent of all major exporters on foreign markets.

The Australian Wheat Board (AWB) is a monopoly exporter of wheat, operating under both federal and state legislation. It is also the main regulatory agency and is charged with the responsibility of marketing and financing the wheat crop on behalf of producers.[121] Unlike the CWB, the AWB does not base producer deliveries on a quota system, instead it uses cooperative and state owned bulk handling facilities to store all deliveries plus any carry over stocks from the previous year.[122] Interim cash payments within three weeks of delivery are used by the AWB to facilitate quick farm deliveries.

After harvest, all wheat is either received by the state Bulk Handling Authority on behalf of the AWB, sold under permit for domestic use as feed or retained on the farm for use as feed or seed.[123] Because there is little incentive for farmers to hold wheat after harvest, very little wheat is stored on farm.[124] The AWB operates under the jurisdiction of the Minister for Primary Industry and Energy. Every five years the wheat marketing legislation which provides both the mandate and the authority for the AWB is reviewed. As a result of this review process several changes were made in 1984 and many more are proposed in 1989.[125]

The latest Wheat Marketing Act of 1989 maintains many features of earlier acts, however some new provisions were implemented in an attempt to improve the transmission of changes in world wheat prices to producers. Current legislation involves the following features:

1. "From July 1, all deliveries to Australian Wheat Board of old season's grain will be received as 1989-90 wheat. This old grain, which will include wheat held in bulk handling authority storage under warrant, will be paid according to a rate yet to be set by the board. Indications are that this delivery price could be around last season's preliminary guaranteed minimum price rate of $147 a tonne on an ASW basis. Deliveries after July will incur the new industry levy."

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120 Ibid, p.12.

121 Ibid, p.2.

122 Ibid.

123 Ibid, p.2.

124 Ibid.

125 IWC, 1988.

2. "All wheat, whether it be delivered to the board or sold directly on the domestic market, will incur a levy payable to the wheat industry fund administered by the Australian Wheat Board. Legislation stipulates a combined research and industry levy between a minimum of 2.25 pc and 5 pc of the value of the wheat. The Grains Council, which will set the levy at its wheat committee meeting next week, is indicating an initial levy of 2.5 pc."
3. "The guaranteed minimum price of old has gone and will be replaced by a Harvest Price, a Second payment in March and subsequent pool payments. The board has yet to determine when the Harvest Price will be announced, although indications are that the first payment will be 80 to 90 pc of the underwritten price, which in turn will be for this season 90 pc of the estimated pool return. The residual 10 to 20 pc of the underwritten value, plus adjustments for protein and deductions for handling and freight are expected to be included in the Second Payment in March."
4. "As from July 1, flourmillers will no longer be required to pay an administered price for wheat for human consumption. The current administered price is $229 a tonne on an ASW port delivery basis. As an interim measure until the start of the next harvest, the board will be selling wheat to flourmillers, plus any other domestic buyer at the Australian export card price, less ship loading or fobbing costs."
5. "The board is confident of establishing a commercial trading arm, which although kept at "arms's length" will be wholly responsible to the board directors. This commercial arm will be responsible for the board's cash trading operations and commercial investments. But while the commercial arm will be buying grains for cash, the on-selling will be the responsibility of the board, which will in turn source grain from the pool deliveries and the cash trading operation."
6. "The board has made no secret that it will be seeking grains other than wheat for servicing its domestic stockfeed customers and for enhancing its export contracts whereby an importer seeks a multigrain shipment under a Wheat Board contract. These other grains will be sourced by the board's yet to be established commercial trading arm."
7. "The current 11 member-board will be replaced by a re-structured 11 member board, which will include a managing director, a chairman, a government nominee and eight members or directors selected by an industry selection committee."[126]

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126 Western Farmer, June 8, 1989, p. 8, Australia.

As the monopoly exporter of Australian wheat, the AWB uses several means of negotiation to consummate deals with importers. Increasingly common over the past twenty years have been direct sales to foreign governments through negotiation with their official importing agencies.[127] The next most common method of exporting wheat is sales through multinational shippers (CIF) or directly to the multinationals as principals (FOB).[128] Approximately 70% of Australia's wheat is sold directly to governments with the balance of wheat exports made utilizing multinational traders. The export of wheat for food aid purposes also takes place.

The mandatory five year reviews of the wheat marketing act involve many industry participants and are normally accompanied by several commissioned and interest (lobby) group reports.[129] For example in February, 1987, the Minister for Primary Industry initiated an inquiry to consider what form of support should be given to the wheat industry along with a review of what changes (if any) should be made to the 1984 wheat marketing legislation prior to the new legislation being enacted in June, 1989. The resulting report has recommended substantial changes to the present marketing system.[130] The IWC has summarized the findings of the report as follows:

> "while the AWB should maintain some of its present responsibilities, it should not retain its monopoly over exports. The role of private traders should therefore be extended."

The report also recommended the removal of the Guaranteed Minimum Price (GMP) for wheat.[131]

Apparently, the response by the Minister for Primary Industries and Energy indicates that he considers the AWB in need of more commercial flexibility, but that before new legislation is implemented wheat producers should be given an opportunity to provide more input. More recent information suggests the AWB will lose its monopoly in the domestic milling and feeding markets, but retain its monopoly exporting role.[132]

A Royal Commission regarding grain storage, handling and transportation also presented its findings in 1988. Overall, the Royal Commission found Australia's system contained several inefficiencies related to the large number of regulations in place. "It was considered that a more competitive, less regulated system, could lead to significant savings in total costs."[133]

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127 AWB, 1987, p.12.

128 Ibid, p.13.

129 IWC, 1988.

130 Ibid, p.2:2

131 Ibid, p.2:2.

132 Canadian Wheat Board, Personal Communication, February 13, 1989.

133 IWC, 1988, p.2:3.

3.2.2 Support Policies

Australia's wheat industry is given some support through the GMP, but generally the industry is market driven and producers are only marginally insulated from declines in international prices as compared to producers in the EEC, US, and Canada. The transportation of wheat by rail is one of the few areas that receives some federal assistance. The GMP is guaranteed by the federal government and has rarely gone into deficit.[134] The GMP functions more as a price stabilizing mechanism as it is set based on historical averages and anticipated prices. Overall, the only price protection Australian producers are provided with is protection against sudden, unanticipated drops in world prices.

Export Enhancement

Australia does not subsidize the export of wheat, however, the AWB does seek out other ways to enhance its exports. In Australia, final export pricing procedures take into account the cost to the AWB of providing the pricing mechanism and existing market conditions that are often measured by price movements on US futures exchanges.[135]

Export credit is available from the AWB, but only at commercial rates. Traditionally, credit was given to a few selected countries however, due to the competitiveness of the export market, the AWB has recently provided three year credit to previous cash customers. Export credit insurance is available to the AWB through a crown corporation, the Export Finance and Insurance Corporation (EFIC). EFIC is operated on a commercial basis in order to offer Australian exporters an opportunity to insure against payment default. EFIC requires the AWB to pay a premium and also carry a portion of any loss that might occur. If credit sales become excessively large the Australian government may also become involved in underwriting the EFIC.[136]

3.2.3 Non-price Market Development and Promotion

The AWB is active in numerous export market development and promotional activities. The AWB operates offices in New York, London, and Tokyo in order to provide market information on freight rates, supply/demand circumstances in exporting and importing nations, and monitor changes in currency values and carry out market promotion.[137] The AWB is also active in visiting importers and hosting delegations so that any changes in importing nations can be viewed first hand and so that buyers have an opportunity to convey their exact needs.[138] The AWB makes use of most if not all of the non-price market development activities described in Chapter Three in order to keep buyers and

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134 AWB receipts were below the GMP for the first time in a decade during the 1987/88 marketing year.

135 IWC, 1988, p.3:3.

136 Ibid, p.3:4.

137 AWB. 1987, p.13.

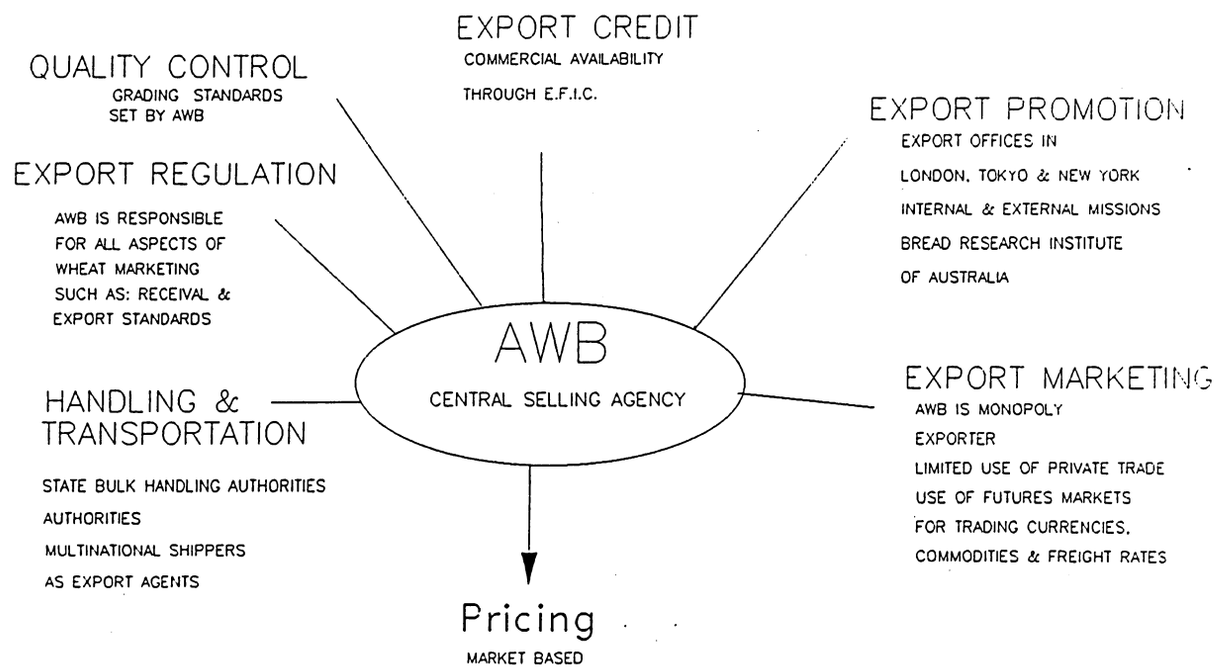
138 Ibid, p.13.

flour processors fully informed of the advantages that Australian wheats have to offer for a given need.[139] More specifically, the AWB promotes Australian wheat in export markets through use of milling seminars, baking seminars, training courses regarding milling, bread and noodle making, cereal laboratory, grain storage and hygiene technology. Courses are offered related to wheat marketing as well.

In addition to the many technical seminars given in Australia and selected importing countries, the AWB also participates in trade shows and special promotional events as requested. The AWB also writes publications for distribution throughout the wheat industry and media.[140] Recent promotional efforts by the AWB include the construction of a bakery and noodle processing facility in China at a cost of US$ 2.0 million.[141]

Figure 3.2 gives a brief overview of the major components of Australia's wheat marketing system grouped under six main headings.

Figure 3.2. The Wheat Exporting System
Australia



139 Ibid, p.13.

140 AWB, 1987.

141 Australian Wheat Board, Personal Interview, May, 1988.

3.3 Canada

3.3.1 Overview

The Canadian wheat industry is centered mainly in the semi-arid prairie region of the country, although some wheat is grown in eastern Canada. Canada has historically been the second largest exporter of wheat, although actual production is variable due to volatile weather patterns over much of the growing area. Canada produces predominantly high quality Red Spring wheat, with durum being the second most important category. In total, seven grades of spring wheat are licensed, as well as two utility grades, two red winter grades and one feed grade. In Canada, five grades of amber durum are produced.[142]

The Canadian Wheat Board (CWB) is the monopoly exporter of prairie wheat.[143] The legislation creating the CWB was enacted in 1935 (amendments have been made since then). The CWB was incorporated with the objective of marketing grain grown in designated regions for domestic and international markets.[144] In summary, the main responsibilities as set out in the Canadian Wheat Board Act are to:

1. "Market wheat, oats and barley delivered to it, to the best advantage of producers."
2. "Provide producers with initial payments established and guaranteed by the federal government."
3. "Pool selling prices for the same grain so that all producers get the same basic return for the same grain and grade delivered."
4. "Equalize deliveries through quotas so that each producer gets his fair share of available markets."
5. "Organize grain shipments to meet sales commitments in order to make the best use of handling and transportation facilities."[145]

The CWB is an important agency in Canadian agriculture and is involved, either directly or indirectly, in most aspects of exporting wheat from Canada. The CWB establishes selling prices for the numerous grades of wheat on a daily basis along with maintaining the desired flow of supplies through the use of a delivery quota system. Due to the lack of sufficient terminal space to store each year's crop, the quota allows a large portion of total supplies to be stored on farms until such time as export arrangements can be made.[146]

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142 Canadian Wheat Board. "Annual Report." 1986/87.

143 Wheat produced in Ontario is marketed by the Ontario Wheat Board. A similar board also exists in Nova Scotia.

144 Wilson, C.F. Grain Marketing in Canada. CIGI, Winnipeg, 1979.

145 Ibid, p.65

146 Ibid.

In recent years, the majority of exports have been through direct negotiations with government importing agencies of foreign countries. The role of accredited domestic and international grain companies has been reduced generally to that of handling, storage and transportation. To a limited extent the private trade is still used to consummate export sales. The three prairie pools[147] in 1970 established a wholly owned accredited export agency, "XCAN" which is currently Canada's largest single shipping agency.[148]

Many other agencies are also involved in the Canadian grain industry. The names and role of these organizations are summarized as follows:

1. Canadian Grain Commission (CGC); its role is to regulate the interests of all parties involved in the grain industry. More specifically it regulates the grading, handling, licensing of elevators and storage facilities. The Commission operates under the authority of the Canada Grain Act. In brief it is responsible for all aspects of quality control and supervision of grain handling.[149] The activities of CGC are divided into five divisions; Administration and Finance, Grain Inspection, Weighing, Economics and Statistics and a Grain Research Laboratory.[150]

3. Grain Transportation Agency (GTA); is an independent organization charged with the responsibility of working with the railways, producers, grain companies, the CWB, the CGC, shipping authorities, and other organizations involved in the Canadian grain industry. The objectives are to ensure the efficient handling and transportation of Canadian grain. It is legislated under the Western Grain Transportation Act (1983). The objective of the GTA is to ensure the efficient handling and transportation of Canadian grain. The GTA also works in association with the Senior Grain Transportation Advisory Committee.

5. Canada Grains Council; is an association of grain industry participants organized in 1969 at the initiative of the federal government. With a current membership of approximately 30, the Council strives to find industry consensus regarding various problems facing the Canadian grains industry. Funding is achieved through membership fees and the federal government. The Council also assists in some aspects of export market development and promotion and undertakes independent research related to many aspects of the grain industry.

6. Canadian International Grains Institute (CIGI); is a non-profit corporation involved in educating industry participants regarding grain handling, transportation, marketing and technology. Working in conjunction with the CWB, the Canadian Grain Commission, Agriculture Canada, private industry and universities, CIGI strives to

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147 Alberta Wheat Pool, Saskatchewan Wheat Pool and Manitoba Pool.

148 XCAN, Personal Interview, May 1988.

149 Wilson, C.F. 1979, p.73.

150 CIGI. 1982, p.A-1.

enhance the marketing of Canadian grains and oilseeds in foreign markets through the provision of information regarding many aspects of the wheat and oilseeds industries.[151]

7. Agriculture Canada; is the main government body involved in research, regulation, and assistance in the grain industry. In Canada, the Minister of Agriculture is responsible to parliament for the operation of the Canadian Grain Commission. Agriculture Canada with involvement from the Minister of State for the CWB operate a "Grains and Oilseeds Branch" of which the National Grains Bureau is a part. The National Grains Bureau performs an internal advisory role to the federal government in the areas of policy and market analysis, statistics, and communications. A "Grain Marketing Bureau" is also operated by Agriculture Canada. Its role is mainly external and it functions as a liaison between agricultural postings in foreign markets (embassies etc.) and domestic grain agencies. In the past the Grain Marketing Bureau has also developed market promotion programs for Canadian oilseed crops.

3.3.2 Support Policies

Canadian agriculture (generally), and the wheat industry (specifically) are affected by many government policies. Many of the regulations that are now in place are the result of the swiftness of settlement on the prairies and land-locked nature of the prairie wheat production area. Firstly, rapid settlement of the prairies led to increased production and put pressure on the limited grain handling and transportation infrastructure. Secondly, due to the distance from port facilities the federal government considered the construction of a national railroad important for growth of western Canada.[152] In an effort to expedite the transportation of wheat from the prairie regions to export terminals at Vancouver the Government financed the construction of a railroad into southern B.C. In return for certain concessions the Canadian Pacific Railway agreed to maintain grain freight rates at a fixed rate. These rates were later made statutory and were in effect until 1984.[153] Canadian grain producers have been the beneficiaries of subsidized rail transportation which helps them compete with exporting countries that have better access to lower cost water transportation.

The Western Grain Transportation Act (WGTA) of 1983 has since replaced the statutory rail rates. Under this agreement the federal government now subsidizes the transportation of up to 31.5 M tonnes of wheat per year. The level of subsidization is determined using a formula based on past and projected export volumes and is announced April 30 of each year by the GTA.[154]

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151 CIGI. 1982, p.18.

152 Canada Grains Council. Government Policies Supporting Grain Production & Marketing - Canada and the United States. Winnipeg, 1986, p.17.

153 Ibid, p.52.

154 IWC, 1988, p.3:5.

Other transportation subsidies are also used in Canada including the Atlantic and East of Buffalo (At and East) subsidy for moving grain and flour by rail into export position from any point to positions east of Thunder Bay.[155] Assistance for the acquisition of hopper cars on behalf of producers for the use by the railroads has also been given in the past by both provincial and federal governments.[156]

Beyond transportation, the basic price support system in Canada is the initial payment. Each spring before seeding, the CWB announces minimum prices that producers will receive for deliveries of various grades of spring and durum wheat, barley and oats.[157] In total the CWB operates six pool accounts. If the receipts in a particular pool are not sufficient to cover the costs of the initial payment, the federal government is obligated to absorb the difference.[158] Conversely, if a surplus remains after deducting for operating expenses, the surplus is distributed to producers as interim and/or final payments.[159] Government payments, however, are seldom required as surpluses usually occur in each of the pool accounts.

The Prairie Grain Advance Payments Act (PGAPA) gives additional financial support to producers by facilitating the transfer of the initial payment before delivery is made in the form of a loan. Various restrictions are in place, however, the government assumes the interest cost and liability for repayment default. Administration costs are born by producers through deductions on pool accounts.[160] Advance payments are a method of offsetting the risk of quota not being available for the delivery of wheat until late in the crop year, and thus avoiding potential cash flow problems.

Another method of reducing the income risk faced by producers is the Western Grain Stabilization Act, (WGSA). Essentially a publicly subsidized insurance program, the WGSA is a method of ensuring that realized cash aggregate receipts do not drop below the average of the past five years. From 1976 until the 1987/88 crop year, this voluntary program was financed by a levy of 1% on producer grain sales and by a corresponding federal payment of 3%. However, the impact of decreasing world prices since 1982 has resulted in large payouts under the program creating a fund deficit of C$ 1.5 Billion in 1988.[161] In an attempt to reduce this deficit, legislation was implemented starting in the

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155 IWC, 1988, p.3:5.

156 Canada Grains Council, 1986, p.50

157 Following a decision by the Federal Government, the CWB will cease buying oats from producers on July 31, 1989. (The CWB Department of Information, January, 1989).

158 Wilson, C.F., 1979, p.65.

159 Ibid, p.64.

160 IWC, 1988, p.1:4

161 Canadian Wheat Board, Personal Communication, February 13, 1989.

1987/88 crop year that increase the producer premiums from 1% to 4% of cash sales up to a maximum of C$2,400 per farmer. Administration costs of the program are financed by the federal government.[162]

Another program, the Agricultural Stabilization Act, is empowered to give price support to crops grown outside of the CWB's designated growing area. Support prices are set at 90% of the average market price of the previous five years, indexed to the cost of production.[163]

Ad-hoc assistance has also been given during periods of drought and low prices by both federal and provincial governments. For example in 1986 the federal government announced the Special Grains Program to offset the impact of low international prices caused by the export subsidies of the EEC and US.[164] The program was extended to the 1987/88 crop year. The two year cost of this program is approximately C$ 2.1 Billion and is covered by the federal government. Drought relief programs have in turn been handled in a number of ways, including increased payments under the federal/provincial all risk crop insurance programs.

Other farm programs also support directly and indirectly the production of wheat and other grains. Examples include favorable taxation, provisions such as a farm fuel tax rebates, farm debt review boards, crop insurance subsidization, and the government backed Farm Credit Corporation. Moreover, each of the nine provincial governments also have programs designed to enhance the farm industry.[165]

Recent removal of the two-price system has ended discriminatory pricing of wheat sold domestically for human consumption. Another change currently being discussed is the removal of the acreage based approach to establishing quota levels. The proposed new quota system for grain deliveries would be inventory based (producer supply contracts), but this possible amendment to the CWB Act is currently still in the planning stages.[166]

EXPORT ENHANCEMENT

Although not a preferred method of making sales, direct export assistance is available from the CWB under section 12 of the Wheat Board Act.[167] In 1970, authority was given for the CWB to use commercial sources of credit to finance exports of western wheat for

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162 IWC, 1988, p.1:4.

163 IWC, 1988, p.1:4.

164 IWC, 1988, p.1:5.

165 Canada Grains Council. 1986.

166 CWB, Press Release, November, 1988.

167 Financing for export of non-board crops is available through the Export Development Corporation. Source: Canada Grains Council.

three years or less, at market rates of interest. The loans are of no risk to producers as they are guaranteed by the federal government. Export credit for the purchase of "non-board" grain is also available through the Export Development Corporation.[168]

The CWB does not normally finance more than 25% of its grain exports.[169] All credit arrangements are made using commercial sources at competitive interest rates, however the the loans are secured by the Government of Canada, thereby shifting the risk of loan default away from producers. No other price or credit incentives are available to buyers of Canadian wheat in addition to commercially available three year credit which is offered only to qualifying customers.[170] Prices are arranged on a daily FOB basis at prices to be competitive with other exporters. The use of long term sales agreements is also popular with the CWB. The bulk of Canada's wheat exports are on a free on board (FOB) basis, however, some sales are made on a CIF (cost, insurance, freight) basis.

3.3.3 Non-price Market Development and Promotion

The CWB in conjunction with CIGI utilizes a wide variety of export market development and promotional activities. Market information is gathered through an overseas office in Tokyo, Canadian embassies, and through visits to various import markets. CIGI promotes Canadian wheat through providing technical seminars to millers, bakers, noodlemakers and grain handling and marketing specialists from current and potential customers of the CWB.

The CWB has been active in the promotion of Canadian wheat in importing countries for many years. As early as the 1930s the CWB operated an advertising campaign in the UK on the merits of Canadian wheat.[171] In 1956, the CWB began inviting grain trade representatives to visit Western Canada in order to view first hand the effort being undertaken to improve the quality of Canadian wheat exports.[172]

In addition to past missions organized by the CWB, the Canadian Grain Commission (CGC) was also actively inviting foreign scientists to attend training sessions in their Winnipeg laboratory. On the basis of the experience gained in organizing incoming missions, since 1956, the CWB and CGC recommended to the federal government that these programs be broadened and formalized.[173] With initial capital funding from the federal government for class and conference rooms, a library, laboratories, a flour mill, and a pilot bakery were built and located in the CGC building in Winnipeg.[174] Since CIGI was

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168 IWC. 1988, p.3:6.

169 In the 1987/88 crop year approximately 9% of CWB exports were made on a credit basis. (Source: Personal Communication, Richard Downey, CWB, April, 1989.)

170 Personal Communication, Richard Downey, CWB, April, 1989.

171 Wilson, C.F. 1979, p.224.

172 Ibid, p.224.

173 Ibid, p.225.

174 Ibid, p.225.

incorporated in 1972, several changes and additions have been made to the facilities to meet changing industry needs including the addition of noodle manufacturing equipment.[175]

The major activities of CIGI are the development, organization and presentation of technical seminars related to many areas of the grains and oilseeds industries. Some examples of CIGI seminars carried out in cooperation with various countries and on a multi-country basis include:

1. Baking and noodle manufacturing (Indonesia)
2. International Feed and Oilseeds Course
3. International Flour Technology Course
4. Grain weighing and inspection (Peoples' Republic of China (PRC))
5. Malting and brewing technology (PRC)
6. Milling and Baking Course (Latin America)
7. Domestic programs related to milling, the feed industry, grain marketing, grain quality measurement courses and farm leadership.[176]

The role of CIGI has been recently expanded to include the provision of assistance to a wider variety of organizations in Canada and elsewhere. For example CIGI now works more closely than before with farm commodity groups and organizations. Under the direction of appointed representatives from the CWB, CGC and federal government, CIGI has been given the mandate and flexibility to respond to information requests from a variety of domestic and foreign organizations.[177]

The Canadian International Development Agency (CIDA) also provides export assistance to Canada's grain producers. The most common involvement by CIDA has been to provide food aid programs in third world countries, however, some attempts have been made to increase the involvement by CIDA in commercial transactions in addition to involvement in foreign aid.[178]

Figure 3.3 summarizes the main components of the Canadian wheat exporting system. As shown the central wheat exporting agency in Canada is the CWB.

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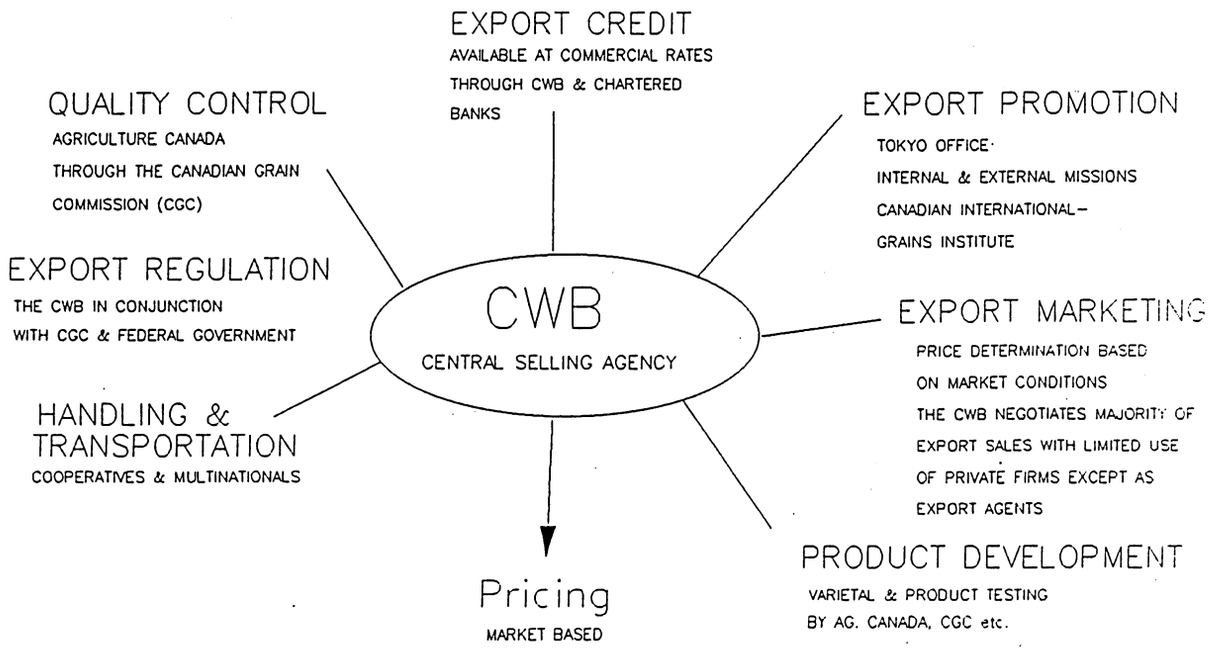
175 Canadian International Grains Institute, Personal Interview, January, 1988.

176 Canadian International Grains Institute, Annual Report, 1987.

177 CIGI. Annual Report, 1986-87.

178 Canada Grains Council, 1986, p.86.

Figure 3.3. The Wheat Exporting System of Canada



3.4 European Economic Community (EEC)

3.4.1 Overview

The EEC has moved from being a large importer of wheat to that of a net exporter in the past 20 years. The engine behind this growth in production is the Common Agricultural Policy (CAP) which guarantees prices to domestic producers that are typically well above international levels, while at the same time protecting against imports through variable levies. Other components of the EEC cereals regime include a target price, a threshold price, an intervention price and export refunds.

The EEC was formed as a result of the treaty of Rome in 1957. From the outset, the purpose of this community of nations was to bring about economic integration of the countries of western Europe through internal free trade (yet to occur)[179] and coordination of economic and social policies. The original six members were West Germany, France, Italy, Belgium, The Netherlands, and Luxembourg. In 1973, the EEC was expanded to include Denmark, the UK and Ireland. Greece was admitted in 1981 and in 1986 Spain and Portugal also became members.[180]

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179 Target date is 1992.

180 Johnson, R.G. "The Common Agricultural Policy of the European Community." Department of Agricultural Economics, North Dakota State University, 1985, p.1.

The Common Agricultural Policy (CAP) of the EEC was first discussed in 1960 when the EEC Commission[181] published various proposals for the development of a common farm policy.[182] Since 1960, when the concept of CAP was first introduced, it has been the subject of controversy although its initial implementation did not occur until 1962. The Dillon Round of the General Agreement on Trade and Tariffs (GATT) negotiations from 1960 to 1962 provided the stage for the first confrontation between the EEC and the US regarding proposed farm legislation.

The essence of the CAP is protection and enhancement of EEC agriculture. Its formal objectives as stated in Article 39 of the Treaty of Rome are summarized as follows:

1. "to increase agricultural productivity by developing technical progress and by ensuring the rational development of agricultural production and optimizing utilization of the factors of production, particularly labour.
2. to ensure thereby a fair standard of living for the agricultural population, particularly by the increasing of the individual earnings of persons engaged in agriculture;
3. to stabilize markets; and
4. to ensure reasonable prices in supplies to consumers"[183]

3.4.2 Support Policies

Domestic

International agricultural commodity prices have been generally lower than internal EEC prices and thus the EEC has had to resort to the use of variable import levies, export subsidies and government purchase of excess supplies in order to maintain protection for farmers.

The system for establishing price levels and providing the level of protection for wheat (and other cereal) producers deemed necessary by the Council of Farm Ministers[184] is generally known as being complex and political in nature. Some key features of the cereals support regime are a target price, a threshold price, an intervention price and a co-responsibilty levy.

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181 The EEC Commission is the governing body of the EEC and is located in Brussels, Belgium.

182 Fischer, L.A., "The European Community Policies and Their Impact on Canada's Agricultural Trade" MacDonald College of McGill University, Publication 86-1, 1986, p.1.

183 Home Grown Cereals Authority (HGCA). "EEC Marketing Arrangements for Processed Products" London,1985.

184 The Council of Farm Ministers is composed of agricultural representatives from each of the 12 member nations that meet to evaluate the various proposals of the EEC Commission.

The target price is fixed once per year by the Council of Farm Ministers. In theory,[185] the wholesale free on board (FOB) market price of grain in the area of greatest deficit,[186] is to be related to the target price. The target price is therefore supposed to be higher than the intervention price[187] by the cost of moving grain from area of greatest surplus[188] to Duisburg plus an arbitrary "market element" that reflects the difference between market price and the intervention price.

The threshold price is effectively the EEC's minimum import price for third country grain and therefore is the main barrier against the importation of lower priced wheat (grain) into the EEC from international markets. Because the international price of wheat and other commodities fluctuates, a variable levy is used to maintain the cost of importing wheat at levels equal to or greater than the threshold price.[189] The threshold price differs from the target price by the cost of transporting grain from Rotterdam to the Duisburg in addition to a trading margin and transhipment costs at Rotterdam port.[190]

The intervention price is also fixed annually along with a reference price for milling wheat meeting certain quality standards. This price is the floor price at which the government is obligated to purchase cereals in the event of surplus supplies. The reference price for milling wheat was implemented in 1976 to account for the differences in wheat quality and encourage production of higher protein varieties, but, has since been eliminated.[191,192] The apparent objective of the reference price was to encourage production of lower yielding higher quality varieties of wheat in the applicable regions of the EEC.

In order to account for storage costs and the need to maintain the flow of supplies on the market throughout the year, monthly incremental increases in support prices occur beginning August 1 of each year.[193,194]

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185 According to section 2727/75, Article three of the EEC farm legislation. Source: HGCA, "EEC Marketing Arrangements for Grains and Processed Products", 1985, Chapter One, p.4.

186 This area is usually Duisburg in the Ruhr Valley of West Germany.

187 The floor price at which the government is obligated to make purchases.

188 Normally at Ormes, France.

189 HGCA, 1985, Chapter One, p.4.

190 Ibid, Chapter One, p.4.

191 Lapis, P.S. "Economic Analysis of Grain Production in France." USDA, Agricultural Trade Analysis Division, Washington, 1988, p.3.

192 HGCA, 1985, p.10.

193 The start of the EEC grain marketing year was changed from August 1 to July 1 in 1986 to account for the early harvest periods in Spain and Portugal.

194 Ibid, p.11.

Other components of the domestic EEC cereals regime include special aid for durum wheat production, starch production refunds and a co-responsibility levy. Special aid for durum wheat production in the form of direct income subsidization is also given to EEC farmers. The reason for this is that the EEC originally believed that a subsidy was needed to stimulate durum production so that the dependence on third country durum imports could be reduced. In addition to other regulations, aid is only given for durum satisfying certain qualitative and technical requirements.[195]

The co-responsibilty aspect of the cereals regime was first introduced in 1983. The procedure is an attempt by the EEC to control the increase in government expenditures on price supports and the amount of cereal grain purchased at intervention prices. The procedure involves the fixing of guaranteed volumes of grain the government will buy at intervention prices. Production above this level results in an incremental reduction (price penalty) in the intervention price for the commodity in question.[196] Figure 3.4 gives a graphic representation of the EEC pricing scheme for wheat. As shown the target price is typically above the international (third country) wheat price.

Each of the 12 member countries use different currencies which fluctuate in value throughout the year thus making the task of universal pricing somewhat difficult. As a result the EEC has developed its own (ag. related) currency called European Currency Units (ECUs). The ECU is valued against other international currencies (eg. US dollar) using the weighted average value of the 12 member currencies.[197] CAP prices are then set each year and are converted into local currencies based on a "green conversion rate" which often differs from the current floating rate of exchange.[198] When this occurs, a border adjustment is required to prevent any arbitrage that could take advantage of different price levels across borders. The EEC has addressed this problem through the use of monetary compensation amounts (MCAs).[199]

Exports

The majority of support comes from the pricing mechanisms of the CAP. On the export side support is given through cereal export refunds which are essentially export subsidies used to reduce the size of intervention stocks. The end result of this activity has been increased export supplies on world markets and added competition for relatively static wheat import markets. EEC producers thus have been able to produce ever increasing amounts of grain without having to worry about marketing it or what price they will receive.

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195 Ibid, p.14.

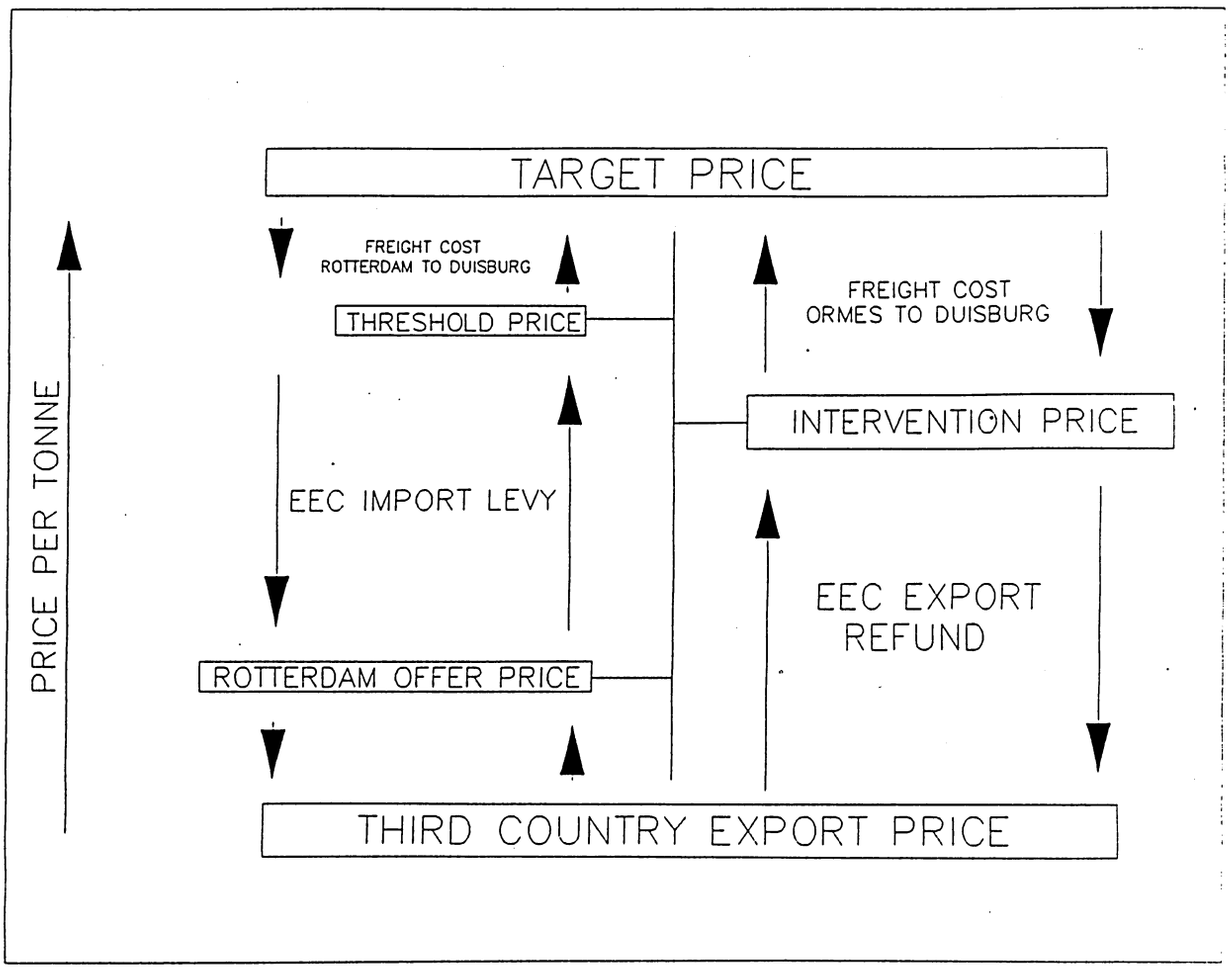
196 Ibid, p.16.

197 Johnson, R.G. 1985, p.2.

198 Ibid, p.2.

199 Ibid, p.2.

Figure 3.4 EEC Pricing Structure for Wheat



Adapted From: Home Grown Cereals Authority. London, 1985, chapter 1, p.7.

Export refunds are essentially a method of making EEC cereal exports price competitive on international markets. However, by doing so they increase the supply of low priced wheat and this, in turn, has become the object of much concern from the major historical suppliers of wheat such as the US, Canada, Australia and Argentina. Since the mid 1970s, external world prices have been consistently lower than internal EEC prices. This fact, combined with increasing price support levels has artificially stimulated production creating surplus amounts of wheat and other grains. Export refunds (restitution) have thus been necessary to allow for the disposal of surplus grains (intervention stocks).[200]

Export credit is not offered by the EEC as it competes mainly on price, however, short term financing has been offered by individual countries such as France and the UK. In France, six month credit is made available on the export of agri-food products through

200 Ibid, chapter one, p.13.

COFACE[201] which provides credit guarantees to exporters.[202] In the UK the Export Credit Guarantee Department (ECGD) has on occasion become involved with the export of grain. In 1984, the Minister of Trade announced that credit terms on the export of grain could be extended up to three years providing certain conditions are met.[203]

Impact of CAP

One impact of CAP has been high food prices in most member states which may be viewed as a transfer payment from consumers to farmers.[204] A second impact of the CAP has been the steady increase in the level of export subsidies required to dispose of the growing surplus of cereal and other farm production (eg. beef and dairy). In recent years, the cost of maintaining the CAP has encompassed approximately two-thirds of the total EEC budget.[205]

A large portion of EEC expenditures are used to subsidize the export of wheat (and other produce) on international markets. The impact of these export subsidies by the EEC has been depressed world prices. This has triggered reactions by US policy makers to develop similar trade legislation [206] that will enable the US to maintain historical market shares. Since the mid eighties, the EEC and US have fought an agricultural trade war at great expense to both treasuries. Smaller exporting nations such as Canada and Australia have also been affected as they compete with the EEC and the US in wheat markets.

The operation of the CAP (and more specifically the cereals regime) is complex, however some European analysts believe this to be a "necessary evil". Moreover, some analysts argue that the objectives of CAP have largely been achieved. However, the cost of maintaining current levels of support has become increasingly burdensome. On this basis the EEC has implemented several changes to CAP and the cereals regime in order to reduce expenditures in this area. It appears that some of these proposals have been successful in controlling the growth of CAP expenditures.[207] Some analysts believe that eventually the EEC will attempt to align internal prices more closely with international prices, however, this may depend on prevailing international price levels.[208]

3.4.2.1 Non-price Market Development and Promotion

The wheat industry in the EEC has just recently became a net exporter of wheat and therefore does not possess a long established infrastructure for developing export markets and promoting EEC wheat. It also appears that there is a lack of incentive for developing

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201 Compagnie Francaise d'Assurance Du Commerce Exterieur.

202 IWC. 1988, p.3:9.

203 IWC. 1988, p.3:10.

204 Ibid, p.3.

205 Ibid, p.3.

206 The US Farm Bill, 1985.

207 Personal Interview, May, 1988.

208 Johnson, R.G. 1985, p.5.

such an organization because wheat exports do not generate revenues, but rather, have been a drain on the EEC budget. The responsibility for marketing wheat is with the individual member countries of the EEC. Two examples of this include the newly formed promotional organization in the UK., the British Cereal Exports and the French cereals organization (ONIC) which has been active for a number of years in negotiating long term agreements and promoting French wheat.[209,210] Although the EEC Commission is not formally involved in exporting grain, some direct contact has been made by the Commission directly with the USSR concerning trade in recent years.[211]

British Cereal Exports

Originally called UK Cereals Export Development, British Cereal Exports (BCE) was formally launched in 1987. Its advisory committee consists of 12 members representing both producers and grain traders. These two groups also share equally in the funding of BCE through producer and grain dealer levy payments.[212] BCE is operated under the auspices of the Home Grown Cereals Authority which is the agency responsible for administering government programs and providing market information and analysis.

The plans formulated to promote UK cereal include coordinating and directing efforts towards the following:

1. "improving the quality, storage and attractiveness of the UK crop;"
2. "improving the flow of information "inward" from the market place to those who produce and supply grain, or bulk cereal producs, and "outward" so that overseas buyers are well-informed of the attributes and potential of the UK crop;"
3. "trade promotion and other market development activities designed to improve the image of UK cereals and identify and develop market potential for them;"
4. "improving the institutional arrangements which affect exporting (eg. credit facilities, trade and aid agreements with other countries etc.);"

A major component of the BCE strategy to date has been the practice of sending representatives of the UK cereal industry to potential importing countries to develop key contacts. Markets that have been targeted to date include Italy, Poland and West Germany.[213]

The perceived benefits of these missions as viewed by BCE include:

1. "enhanced perception of UK cereals."

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209 Cargill (London), Personal Interview, May, 1988.

210 Liapis, P.S. 1988, p.5.

211 United Belgian Mills (Antwerp), Personal Interview, May, 1988.

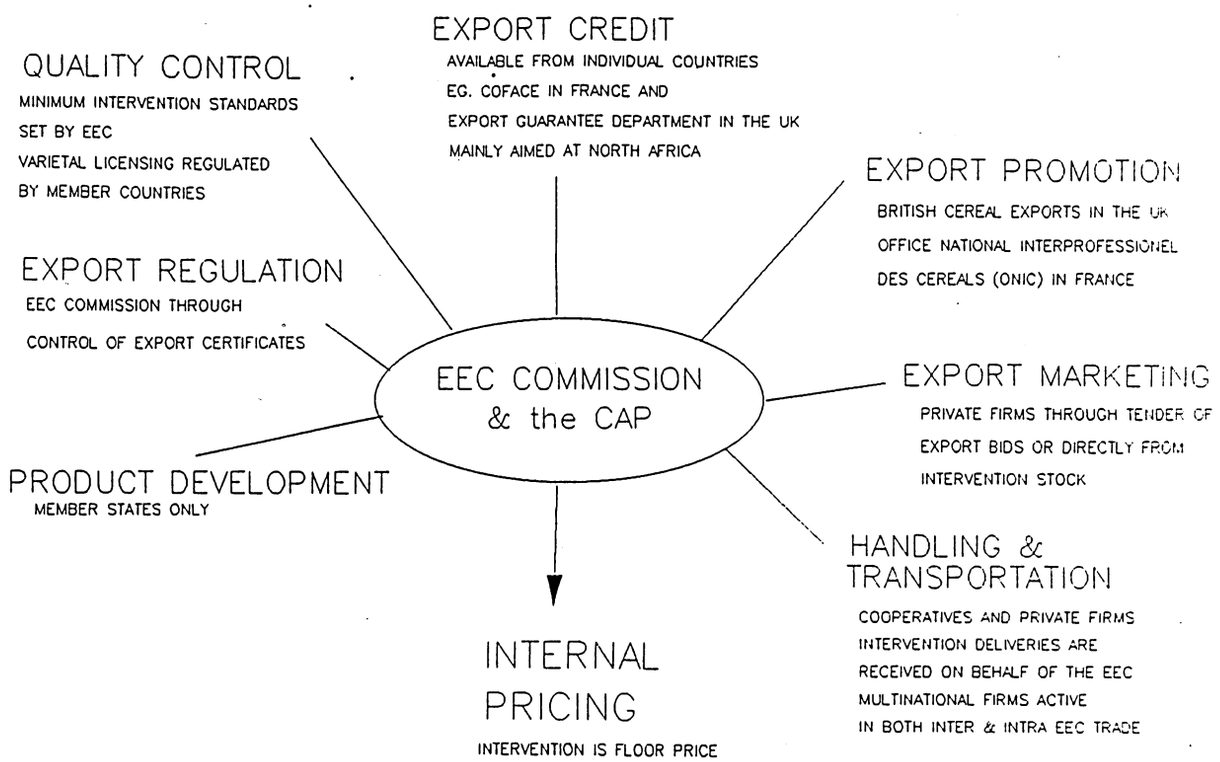
212 British Cereal Exports. "Export Report." HGCA, London, November, 1988.

213 Ibid, pp.4-6.

2. "updating overseas buyer requirements."
3. "furthering trading relationships."
4. "provides independent market summary for producers/traders."[214]

Figure 3.5 gives an overview of the major aspects of the EEC wheat marketing system with respect to institutions and policy. Although the internal market is based on free market participation from private trading companies, the cereals sector is heavily dominated by the policies of the CAP.

Figure 3.5. The Wheat Exporting System of the European Economic Community



3.5 United States

3.5.1 Overview

The US is the world's largest exporter of wheat. All major categories of wheat are produced and exported. The diversity of crops, fertility of land, level of technology, and proximity to water transportation make the US a relatively low cost producer and competitive exporter.[215] Ironically, extensive subsidization of production and exports in order to maintain and/or re-establish market share has resulted in US agricultural support programs becoming something of a burden on the US budget. The US is active in all

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214 Ibid.

215 Canada Grains Council. 1986.

forms of market development and promotion directly through various government programs or indirectly through government supported organizations. The major organizations involved in the US wheat industry are the United States Department of Agriculture (USDA), the Foreign Agriculture Service (FAS), the Commodity Credit Corporation (CCC), the US Wheat Associates (USWA) and the Federal Grain Inspection Service (FGIS).

The FGIS is legislated by two US statutes, the US Grain Standards Act and the Agricultural Marketing Act. FGIS is operated as part of the USDA and is the official grading agency in the US. All wheat destined for export must be certified by the FGIS or designated State officials. In total six classes and 13 subclasses of wheat are listed in the US Grain Standards Act.[216]

Although many US grain policies are in reaction to EEC export subsidies, the USDA has been indiscriminate in application of its own export subsidies since 1985.

The US grains industry is characterized by a large number of both buyers and sellers. Market forces determine the price at which commodities are traded, however, heavy government involvement through target prices and loan rates often affect determination of market prices at which supplies enter or exit government storage programs and thus affect the free stocks of wheat available to the market.[217]

Domestic handling and transportation is carried out mainly by cooperative and multinational grain companies. Export shipping is carried out mainly by private multinational firms and a few large national firms.[218] The private trade handles all aspects of wheat exporting, but rely on the USDA for payment of export bonuses and the arrangement of credit.[219]

3.5.2 Support Policies

The major support policies for wheat are currently legislated by the Food Security Act (FSA) of 1985, subject to the several amendments made since then.[220] In the US the main support vehicle is the loan rate and target price which are set annually for various

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216 MacDonald, A.A. "Wheat Grading Systems of Major Exporting Countries." Canadian Grain Commission, Presentation to 19th International Grain Industry Course, Winnipeg, May 30, 1984, p.13.

217 IWC. 1988, p.3:10.

218 Joseph, T. "Canada's Grain Marketing System, Today & Tomorrow." Proceedings of a Seminar, Edmonton, 1980.

219 IWC. 1988.

220 For a more in-depth analysis of the regulations effecting the operation of the loan rate along with support programs legislated under the FSA see: 1) IWC. "Wheat Support Policies and Export Practices in Five Major Exporting Countries." London, 1988. 2) Canada Grains Council. Government Policies Supporting Grain Production & Marketing - Canada and the United States. Winnipeg, 1986.

cereal and oilseed crops. To qualify for these programs, a producer must agree to adhere to certain guidelines such as acreage reduction and thus the features of the programs are voluntary.[221]

The loan rate gives a producer the opportunity of obtaining a loan for up to 9 months from the CCC. Depending on existing market prices the producer can chose to either default on his loan by transferring the wheat used as collateral to the CCC, or, if the market price is high enough, the wheat used as collateral can be sold. The loan will then be repaid with receipts in excess of the amount of the loan principle and accumulated interest being retained by the producer.[222]

In addition to the loan rate, participating producers are also given a deficiency payment whenever the market price is below the target price. The deficiency payment is calculated as the lesser of the difference between the target price and the average market price over the first five months of the marketing year, or the target price and the loan rate.[223]

Currently (1988), loan rates are fixed using a formula that sets the rate between 75% and 85% of the average price received by producers during the previous five years, excluding the highest and lowest years. Another option that exists for program participants is the Farmer Owned Reserve (FOR).[224] The FOR program can be implemented when the regular support loan expires. Eligible farmers may then register stored on farm wheat (or other commodities) into the FOR and collect government payments for on farm storage fees for up to three years. The original loan is also given interest concessions and repayment is not required until the grain is sold.

Numerous other regulations and alternative policy options exist under current legislation. Many of these are at the discretion of the USDA and others alter the method in which farmers are paid. For example, farmers participating in government programs may be paid in generic certificates for various commodities. This method is called payment in kind and is used to help reduce burdensome stocks.[225]

In addition to the major wheat income and price support programs described above, the US has many other government programs that are designed to enhance farm production. The following list summarizes some programs that may directly or indirectly subsidize the production of wheat in the US:

1. All-risk crop insurance; provides a premium subsidy to participating producers.
2. Soil and water conservation programs; authorizes payment of up to 50% of the cost of returning erodible land into less intensive uses. In addition, the program pays producers a rental fee for the idled land for a period up to 15 years.

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221 IWC. 1988, p.1:7.

222 Ibid.

223 Ibid.

224 Ibid

225 IWC. 1988.

3. Various federal credit programs; assistance is provided in four major forms: by sponsoring credit agencies, through insured loan programs, through guaranteed loan programs and by direct loans.[226]
4. Federal tax policy; income tax concessions that are made available to the agricultural industry.

3.5.3 Export Pricing, Credit and Enhancement Programs

The goal of these programs is to stimulate exports and improve the competitiveness of US agricultural exports. Currently, this is accomplished by subsidizing the price of exports through cash or "in-kind export payments" and direct sales of CCC stocks at reduced prices. Export payments to the commercial trade through the Export Enhancement Program (EEP) and the provision of various "special" credit programs to importers are also ways in which the US attempts to increase exports and market share.[227]

The US has been involved in various methods of disposing surplus wheat since 1954, at which time the Agricultural Trade Development Act (P.L. 480) was implemented. Currently the trend in the US is away from the direct provision of credit and more towards the use of guarantees for export credit obtained from commercial sources.[228]

The extent and complexity of each of the many credit programs are such that the major programs will be highlighted, but not fully discussed. In summary, the major credit vehicles used to enhance the export of US wheat include:

1. Public Law 480 (P.L. 480); three separate titles and amendments under the FSA (1985), deal with long term credit of up to 40 years with cash down payments as low as 5%. P.L. 480 also authorizes donations, and allows recipient governments to resell wheat into domestic markets provided the revenue is used for approved development projects. The third title allows for partial repayment of loans in local currencies.[229]

2. GSM-102; this program is operated by the General Sales Manager (GSM) of the CCC. The program offers credit to importing countries from US banks for up to three years at commercial rates of interest in addition to a federal guarantee of repayment. Five Billion US$ is available annually under existing FSA legislation.[230]

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226 Canada Grains Council. 1986, p.178.

227 Canada Grains Council. 1986.

228 IWC. 1988.

229 Initiated in 1954.

230 Initiated in 1981.

3. GSM-103; the FSA of 1985 made available an additional $500 Million US annually through the implementation of an Intermediate Credit Programme. The difference from GSM-102 is that under this program, credit guarantees can be extended up to ten years.[231]

4. Blended Credit; under this program interest free government credits (GSM-105) were blended with GSM-102 credit to produce a lower interest rate for developing countries.[232]

5. GSM-500/Export Enhancement Programme (EEP); under this programme commodities from government stocks are offered to exporters fulfilling contracts to countries to which EEP offers have been made. The level of bonus is determined through a bidding system. The program was originally designed to help US agricultural products compete in markets receiving subsidized commodities from the EEC, but recently has been targeted at all markets.[233,234]

3.5.4 Non-price Market Development and Promotion

Several organizations receive funding for non-price market development and promotional work in wheat importing countries. However, the US Wheat Associates (USWA) in conjunction with the Foreign Agriculture Service (FAS) carry out the bulk of export market development and promotional activities on behalf of US wheat producers. USWA does not buy, sell or process wheat nor does it arrange the sale of wheat. Its activities are mainly restricted to the provision of training courses and technical assistance. The resources of USWA are mainly devoted to export market development through a network of 13 overseas offices. Funding is provided by producer check offs in fourteen major wheat producing states, the FAS (department of the USDA), and through cash contributions and support activities by third party overseas cooperators.[235]

The overall objective of USWA is to maintain and develop markets for wheat grown in the US. More specific goals are described by the USWA as follows:

1. to expand commercial wheat exports to all areas of the world;
2. to evaluate US trade policies and their relationships to world supply and demand situations so that the US can take advantage of new marketing opportunities wherever they may exist;

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231 Initiated in 1985.

232 Initiated in 1982.

233 Initiated in 1985.

234 McCreary, I. "Incentive Programs in US Agriculture." Unpublished CWB Report, 1987.

235 USWA. "Wheat Exports - Market Development Programs Increase Producer Income." Washington, 1987.

3. to encourage international policies to stimulate trade between the US and its customers;
4. to work closely with other groups, both public and private, in activities that will attain the goals of the US wheat industry;
5. to encourage aggressive pricing of US wheat;
6. to encourage the development of wheat varieties best suited to the needs of customers;
7. to work with the wheat marketing industry to supply wheat of the desired quality to customers;
8. to seek fair and equitable freight rates so as to improve the competitive position of US wheat in world markets;
9. to inform the public of the importance of wheat exports to the US economy and the important role played by USWA and the FAS in developing foreign markets;
10. to maximize the effectiveness of Public Law 480 and other agricultural export credit programs in developing cash markets;
11. to administer the market development programs throughout the world in an efficient and effective manner; and,
12. to expand demand for US wheat around the world as one means to help achieve the cost of production plus a fair profit for US wheat growers.[236]

In addition to the "regular" development work of USWA the FSA of 1985 initiated the Targeted Export Assistance Programme (TEA). Under this program generic commodity certificates are used to reimburse organizations for undertaking promotional efforts in markets that have been subjected to perceived unfair trade practices. Approximately US$ 5.2 Million is to be used for expanding wheat and wheat product exports.[237] Under TEA the USWA have received at least US$ 1.1 Million for work in developing countries. The USWA activities in this project include radio and television advertising. Other market development plans include a pilot flour mill, and cereal laboratory equipment in Egypt. In Algeria baking and processing equipment is to be provided to the government's training and research center.[238]

A summary of the US wheat exporting system is given in Figure 3.6. As shown the export of wheat is handled by private industry, however, the USDA heavily influences the trade through the CCC and various federal programs.

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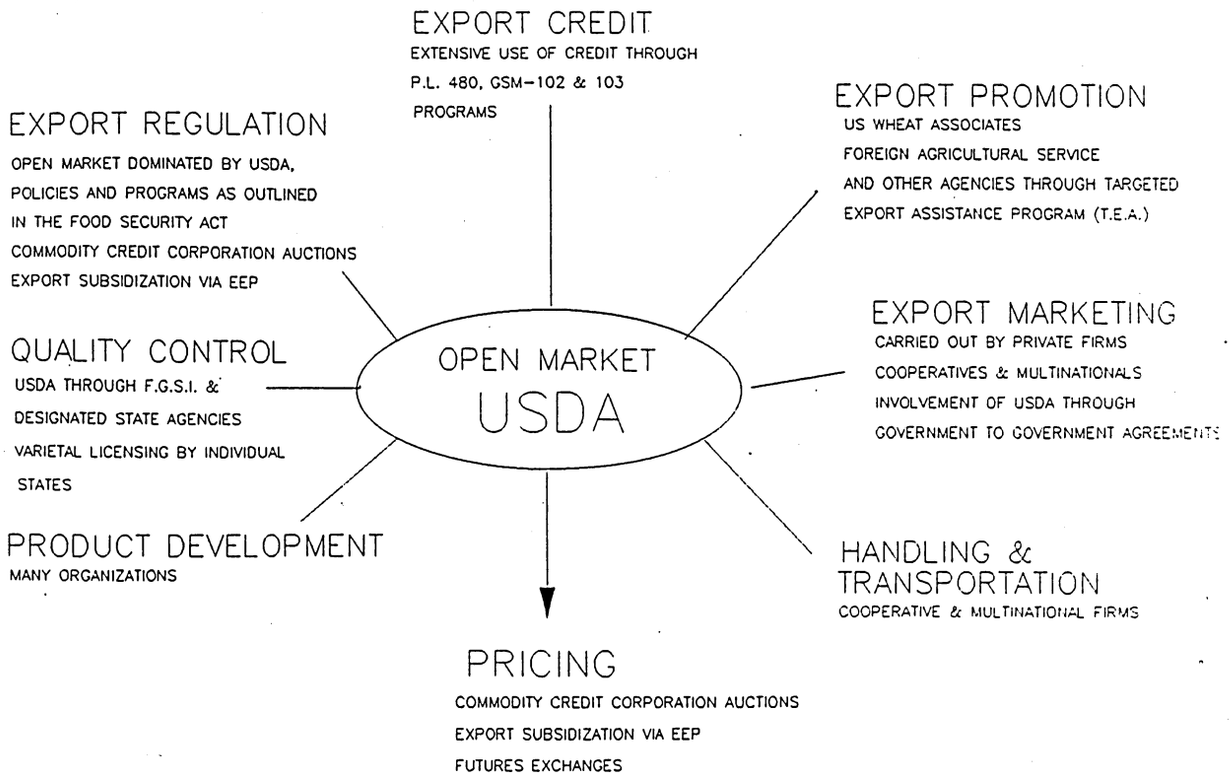
236 USWA. FY 1987-88 Marketing Plan. 1987, p.A-7.

237 IWC. 1988, p.3:13.

238 McCreary, I. 1987, p.8.

Figure 3.6. The Wheat Exporting System of The United States



4 SUMMARY OF INTERVIEW FINDINGS

This chapter discusses the findings of 28 interviews carried out in western Europe during May, 1988. Fifteen interviews were completed in England, four in Belgium and nine in the Netherlands.

The selection of interview candidates was based on a combination of recommendations and references from the CWB, CIGI, the Alberta Wheat Pool (AWP), the Grain Marketing Bureau (Ottawa), the Canadian High Commission (London), and communication with many agencies and corporations located in Western Europe.

The international wheat trade arena is political and competitive. Information among participants is not freely exchanged and thus confidentiality is considered to be important when undertaking research in this industry. Therefore, to enhance the solicitation of accurate (and candid) responses to interview questions the research team agreed to keep individual interview findings confidential.[239]

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239 For purposes of this study the identities of respondents are not disclosed. Specific comments made by respondents during the interview process are presented in a group format in order to assure confidentiality.

As discussed in an earlier section, a major goal of the study was the gathering of perceptions that "experts" in the wheat industry have towards the export market development and promotional activities of the major wheat exporting countries. The majority of interviews were based in England and therefore a secondary goal was to determine the perceptions that UK millers and importers, in particular, have towards the promotional activities of wheat exporters, including UK organizations and their major competitors.

Prior to undertaking the interviews a general questionnaire guideline was developed in an attempt to provide structure to the interviews. The guidelines consisted of an introduction and six "open ended questions". The introduction and questions were as follows:

1. Introduction: discussion regarding the background of the study, study team members and the respondents position and involvement in the grain business.
2. Introduction of Promotional Activities: a) What forms of promotional activity have you generally encountered? b) What other forms exist?
3. Effects of Promotional Activities: a) What effects do the promotional activities of wheat exporters have on your organization?
4. Relative Importance of Promotional Activities: a) Which types of promotion are of increasing or decreasing importance to your organization? b) Does the level of importance change depending on the market being analyzed? c) Do promotional activities affect i) your decision making process? or ii) The decisions of others?
5. Awareness of Promotional Efforts of Wheat Exporters: a) Please describe your awareness of the promotional activities of the five major wheat exporters. b) Please compare the effort and effectiveness of the programs of major wheat exporters.
6. Improving Effectiveness: a) How could exporters increase the effectiveness of their promotional activities?
7. Target Markets: a) Are there specific regions or countries that appear to have more or less activity directed to them by exporters? b) Have exporters segregated the market so that promotion only occurs in those countries with political or trade ties with the exporter?

The interview guideline was generally used as "food for discussion." As a result of the wide variance in background between the respondents, each interview was somewhat different. For this reason the interview responses were not grouped in the same format as the questionnaire guideline. Instead, the interview findings were grouped according to similarities in the background and affiliation of the respondent. On this basis the 28 interviews were grouped into seven different areas namely:

1. Millers (4): This group included representatives of the three largest British milling companies and one Dutch milling organization.

2. Importers (6): This group included representatives of one UK importer, one Dutch port agent, two Dutch importers, one Belgian importer and one Italian agency.
3. Wheat Export Marketing Agencies (3): Included in this group were representatives of the USWA, AWB and British Cereals Exports.
4. Multinational Shippers (6): Included in this group were representatives of three of the big five multinational grain companies, along with two smaller multinationals and one Canadian based grain shipper.
5. Government (3): Included in this group were representatives of DG-1, (the international relations area) and DG-6 (the agricultural area) of the EEC Commission in Brussels, along with a representative of the British Home Grown Cereals Authority (HGCA).
6. Trade and Research Associations (4): Included in this group were representatives of two Dutch trade and research associations, one British based trade association and the International Wheat Council (IWC).
7. Canadian Officials (2): This group consisted of interviews with the Canadian High Commission (London), and the Agricultural Trade Councillor in Brussels.

4.1 Group One - Interviews with Millers (4)

The milling industry in the UK (and most of western Europe) has experienced many changes in the past 30 years. The major factors contributing to these changes, as identified by the respondents in this group are discussed below. In addition, the findings from several other main topic areas as identified by the respondents are summarized in this section.

MAJOR CHANGE FACTORS IN WHEAT MARKETING IN THE UK

THE CHORLEYWOOD BAKING PROCESS (Millers)

In 1961 the British Flour Milling and Baking Research Association in Chorleywood, England introduced the "Chorleywood Bread Process" (CBP) to the UK milling industry. The CBP is different from other methods of dough preparation in that the dough is "ripened" by intense, high speed mechanical action rather than through fermentation. One advantage of the CBP is that a higher quality loaf can be prepared from flour of equal quality. Moreover, CBP allows for the use of relatively low protein flour in the manufacture of leavened bread that previously required higher protein content. The impact on the industry has been a reduction in the need for high protein (quality) wheat.

UK ENTRY INTO THE EEC (Millers)

The next change occurred with the entry of the UK into the EEC in 1973. The major impact of this entry has been to artificially raise the cost of imported wheat due to the use of import levies. This factor has thus provided an economic incentive for UK (and other EEC) millers to alternatives to imported wheats to use in their grists.

INDUSTRIAL CONCENTRATION (Millers)

A third factor impacting the UK milling industry has been an increasing concentration of ownership. In the early 1970s the British Monopolies and Mergers Commission provided assistance to the small independent millers through a price control system. A cost plus system of pricing was used until the early 1980s. However, according to the respondents the baking industry remains highly price sensitive which makes it difficult for small (possible more inefficient) baker to compete in the mass market. According to one respondent, price discounts of up to 60% occur in order to fight for market share.

ADDED GLUTEN (Millers)

A fourth factor that has affected the UK milling industry has been the artificial inclusion of gluten into flour grist. One miller indicated that this has been a common occurrence since 1980. An impact of this is that wheat with lower gluten content (protein content) can be used to produce leavened bread. The end result has been a further reduction in the need for high protein wheat. Although this is an important trend in the UK, one respondent believed that the use of gluten additives is being adopted faster in the Netherlands.

SPANISH WHEAT (Millers)

A fifth factor affecting the UK milling industry has been the inclusion of Spain into the EEC in 1986. The Spanish climate and soil conditions are able to produce high protein wheats and because Spain is an EEC member UK millers are now able to import Spanish wheat free of levy costs. The respondents interviewed had all used Spanish wheat on an experimental basis and some found that the milling and baking characteristics are inferior to Canadian milling wheat. Moreover, the respondents noted problems with the consistency of grade and protein content. Overall the group was not convinced of the merits of using Spanish wheat, however, due to strong pricing incentives Spanish wheat will likely be used when available.

UK MILLING WHEAT (Millers)

The UK is currently one of the largest exporters of feed wheat in the world.[240] However, domestic wheat is used for domestic (and occasional export) milling use. UK millers regard UK wheat as poor quality, but new milling technology and added gluten now allow for increasing use of UK wheat for milling. The respondents noted that quality (and thus the use of UK wheat for milling purposes) of UK wheat is dependent on growing and harvest weather conditions which vary widely year to year.

This group also indicated that the quality of bread currently being produced in the UK (using large amounts of UK wheat) is of inferior quality. However, some of the decrease in quality may be due to new processing methods in addition to decreased use of Canadian wheat.

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240 Home Grown Cereals Authority. 1988.

OTHER DISCUSSION AREAS (Millers)

CANADIAN WHEAT (Millers)

The respondents in this group all indicated that they are very familiar with Canadian wheat because of its historical predominance in the UK and (to a lesser degree) the Netherlands. The respondents also indicated that increased use of Canadian wheat would make the job of producing quality leavened bread much easier. Reasons given for this include the long experience in using it, its consistency in quality, cleanliness and overall milling and baking quality. However, the import policy for cereal grains provides a strong incentive for millers to use minimal quantities of Canadian wheat. The respondents also expressed opinions on the future of Canadian wheat in the UK. Some thought the decline in Canadian wheat imports would continue indefinitely while others thought imports would stabilize at around 300,000 to 400,000 tonnes per year.

Two respondents also commented that when given the choice between using a combination of Australian and Canadian wheat they would prefer to use one or the other because of the time involved in adjusting equipment to handle different wheats. The respondents explained that due to their extensive experience with CWRS wheat, its lower shipping costs and the excessive dryness[241] of Australian wheats, CWRS wheat is usually preferred. As a result, Australian wheat is normally imported only when problems are encountered with prices or supplies from the CWB.

A threshold level of US wheat is also imported for use in the manufacture of "McDonalds" hamburger buns. The respondents indicated that only the minimum allowable amount of US wheat was used because of its inconsistency in quality. One respondent noted some weaknesses in the US grading system, but thought that the US produces top quality milling wheat.

One respondent stated that the trend towards low protein wheat would be reversed in the future. The reason for this was given as an increase in demand for higher quality bread.

One respondent also believed the possibility existed for brand promotion in the UK bread market. Some also considered the demand in "niche" markets for high quality bread (made by small bakers after using Canadian wheat) to be relatively price inelastic.

METHOD OF IMPORT (Millers)

Two importing agencies organize the majority of wheat imports from Canada and elsewhere on behalf of many small millers and also some larger companies in the UK. United Belgium Mills is the largest importer of non-EEC wheat in Belgium and the Netherlands, with much of its imports completed on behalf of other milling companies. Other millers have affiliations with accredited agents in Winnipeg.

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241 The extra dryness of Australian wheat requires double application of a dampening process.

THE CANADIAN WHEAT BOARD (CWB) (Millers)

The CWB appeared to be a popular subject area for the respondents as each of them had some experience to share. Controversy existed regarding whether or not the closure of the CWB office was in the best interests of Canadian producers. Three of the respondents considered the closure of the office as negative with respect to market information. The main reason given for this is that London is a major grain trading center and because Canada is a major supplier of wheat it should be represented in Europe. One respondent indicated that the CWB is lacking in terms of market information and coordination with the shipping industry.

The CWB normally visits UK millers twice per annum according to one respondent. The respondents generally indicated a positive image of the CWB, however, while stating occasional problems had been encountered.

CANADIAN INTERNATIONAL GRAINS INSTITUTE (CIGI) (Millers)

The respondents were all familiar with this organization with two having attended CIGI courses in Winnipeg. General consensus was noted regarding the high quality of CIGI courses and the excellent reputation it has. In the UK the Flour Milling and Baking Research Association (FMBRA) carries out research into the areas of milling, baking, shelf life, gluten substitution etc. and therefore any technological innovation is disseminated by FMBRA and discussed with the industry. Although the UK is on the leading edge of wheat processing technology the respondents still found the information supplied by CIGI to be useful.

US WHEAT ASSOCIATES (USWA) (Millers)

The respondents were all familiar with USWA. The most common statement regarding the USWA was that it was less "professional" in its approach towards carrying out seminars and courses than CIGI.

GENERAL CONMMENTS REGARDING EXPORT PROMOTION (Millers)

A popular promotional activity identified by the respondents were the market and crop reports published by the Canadian Grain Commission (CGC) and the USWA. However, a general indication from the respondents is that non-price promotional factors are currently not effective due to the level of price competition currently taking place in international wheat markets.

4.2 Group Two - Interviews with Importers (6)

As with the milling industry in the UK (also the Netherlands and Belgium) the structure of the shipping industry has also changed in these regions. Western Europe has moved from being one of the largest wheat import markets to predominantly a wheat exporter. The function of EEC wheat importers is to make purchases for millers, negotiate prices and arrange shipping. This section highlights changes that were identified by this group of respondents. The findings related to eight other discussion areas are also presented.

IMPORTING INFRASTRUCTURE (Importers)

As a result of the change in the balance of imports and exports the handling and transportation infrastructure has also changed. In the past millers were located mainly near port locations to be close to their source of wheat, however this is not as important as millers use mainly UK wheat now. The ports originally designed to import wheat are now being used to export wheat.

Grain exports from the EEC and US are performed by the private trade, however, approximately 95% of the international grain traded in the past two years has been subject to at least one government export program.

IMPORT PRICING (Importers)

When purchasing Canadian wheat, importers often take advantage of "daily card prices"[242] which enable final pricing as late as four days before shipping.

MILLING INDUSTRY (Importers)

According to the respondents, millers in western Europe are segregated into two groups. The first group consists of a few large and technologically advanced mills that tend to control the majority of market share. The second group consists of a larger number of small independent (often family run) mills that look for specialty (niche) markets. The second group is not as technologically advanced and therefore require higher protein wheat for the manufacture of leavened bread.

EUROPEAN (UK) WHEAT (Importers)

An impact of CAP noted by one respondent, is the level of research taking place in the area of crop genetics. Apparently the majority of wheat varieties currently being grown are newly developed varieties with favorable growth and yield characteristics. UK production of wheat was pointed out as being consistent in volume yet, highly variable in quality due to the common occurrence of rain during the harvest season.

SPANISH WHEAT (Importers)

Group two comments regarding the impact of Spanish wheat in the EEC were similar to the findings of the group one interviews. Importers considered the quality of Spanish wheat to be inconsistent in grade, but that strong price incentives will encourage the use of Spanish wheat when it is available. More specifically this group recognized that the inclusion of Spain in the EEC has resulted in low cost access to greater volumes of high protein wheat. Other comments expressed the apprehension many millers have towards use of Spanish wheat because of the variability in its grading and quality standards.

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242 Card prices are daily FOB offer prices for the ports of Vancouver and Thunder Bay. The CWB allows some flexibility in the date of pricing which appears to be a popular selling tool. (Personal communication with a representative of the CWB. February 13, 1989).

CANADIAN WHEAT (Importers)

The high quality of Canadian wheat is widely recognized by this group. The respondents also indicated that the high quality of Canadian wheat is widely recognized throughout Europe and much of the world. The consistency in grading and cleanliness was recognized by this group as being important. One respondent suggested that the "type of wheat" should constantly be evaluated as to how it meets the needs of the customer. Another respondent commented that some trade experts believe that it does not command enough of a premium to justify the high expense of maintaining such high standards of quality. It was also stated by some group members that the characteristics and qualities of Canadian wheat should be adjusted to more closely match the needs of the market.

One respondent commented that worldwide, millers are slow to adapt to new technology and for this reason CWRS wheat should remain in demand for another ten or 15 years. When discussing promotion this group mentioned that the product Canada produces should be evaluated as to the yield/quality price tradeoff. Some respondents did not consider the sale of high quality wheat to be a rational undertaking.

CANADIAN WHEAT BOARD

This group of importers have all dealt directly with the CWB and thus were quite familiar with its operations in Europe. The closure of the CWB office in London was not considered to have an impact on the ability of the CWB to service the European market. The respondents generally considered the purchase of Canadian wheat to be a straight forward procedure. In the past any problems encountered with importation of Canadian wheat was generally dealt with from Winnipeg. The reason given for this was the lack of authority given to the London office to make deals and handle complaints or disputes. Another factor contributing to the ineffectiveness of the London office mentioned by this group included the "civil servant aspect" of the CWB which was considered not to be conducive to the efficient collection of market information. It was suggested that employees of the CWB are forced to "play by the book" which discourages flexibility in arranging transactions.

The importance of the UK and western European market was not viewed as being an issue with this group. It was recognized as a major factor in the removal of CWB staff from the market, but was not viewed as reason why the CWB should be active in Europe. A common reason mentioned for having an office in Europe was the increased contact with the trade for purposes of market intelligence and to be closer to customers in Africa, and Eastern Europe.

The major form of promotion carried out by the CWB was viewed as being the provision of strong sales follow up to importers and processors. The CWB is viewed as being somewhat inflexible in its promotional efforts, however, CIGI courses both in Canada and overseas, are viewed as being innovative and effective as a marketing tool.

One criticism of the CWB presented by the group is that it tries to be all things to all people.

Although the CWB no longer operates an office in Europe the respondents noted that CWB staff met with them usually twice per year.

COMMENTS REGARDING MARKET PROMOTION (Importers)

Respondents in this group of importers identified two types of promotion in the grain industry, one aimed at private industry with the other aimed at government agencies. It was suggested that promotional activities aimed at government agencies should be aware of their susceptibility to corruption and also the insecurity of some employees. At various times in the past nearly all government agencies were involved in business irregularities. One respondent noted that "Exportkleb" has placed some of its employees in jail for corruption. Government importers were viewed as being susceptible to political second guessing and therefore careful not to carry out deals that might be disputed. As a result government importers welcome ways to reduce insecurity and normally welcome the use of contracts, long term agreements and a good working relationship with an exporter.

The incidence of corruption in the international wheat trade is decreasing but was considered to still take place occasionally in some centrally planned countries.

A strong marketing package was viewed as consisting of a sound product, competitive price, and strong support through drawing upon the many resources of the domestic wheat industry (eg. Canadian handlers, processors etc.). One important function of CIGI is to select out the new "up and coming" executives from foreign buying agencies and have them attend courses in Winnipeg.

Two respondents suggested that Canadian wheat should be promoted on its gluten content because Canadian wheat contains enough extra gluten that it may be worth extra price to import it on this basis alone.

US WHEAT ASSOCIATES

The largest foreign office of the USWA is located in the Netherlands and this has contributed to its high profile in Europe. Some respondents stated they were in regular contact with staff of USWA. The most popular USWA activity was viewed as the inviting of customers to the US for educational tours. Some respondents indicated this was an effective tool of influencing their decision making process.

4.3 Group Three - Interviews with Export Marketing Agencies (3)

The respondents within this group are all active in carrying out export market development and promotional activities in the wheat trade. As a result members of this group placed emphasis on the importance and impact of non-price market development and promotional activities. The main interview findings from this group related to the activities of each organization. These and other findings are discussed under the following four headings.

AUSTRALIAN WHEAT BOARD (Marketing Agencies)

The AWB views itself as a flexible and innovative marketing agency, different from the CWB in many ways. This stems from differences in federally legislated powers. Many of these differences have been discussed in Chapter Three and will not be repeated here. However, findings unique to the interviews are discussed below.

The balance of this interview group viewed the AWB as having broadly based marketing powers which enabled it be to more dynamic than competing agencies in its services and marketing efforts. One respondent stated that through hard work, innovation and flexibility the AWB has become successful in its goals of price premiums and market share over Canadian and US wheat.

In order to achieve flexibility in closing sales with shippers and importers, each sales office has been given increased authority. Examples include the ability to tender offers on short notice and arrange shipping without the involvement of head office.

PROMOTIONAL ACTIVITIES (Marketing Agencies)

Respondents in this group considered the production of a sound wheat that is consistent in quality to be the first step in developing a marketing strategy. If the product is of inferior quality one is usually forced to compete on price which was viewed as precluding some of the potential benefit of promotion. However, if the product is of superior quality then effective promotion becomes a greater possibility. An example given during one interview was a US wheat shipment to the Middle East under the Export Enhancement Program which "backfired" when the shipment arrived containing stones and other debris. It was noted that quality conscious exporters such as Canada and Australia should be able to take advantage of situations like this.

The results of having a London based AWB sales office since 1984 has exceeded expectations according to one respondent. Another response concluded that the economic impacts of market development are often clear. The example given was extensive promotional work undertaken by USWA in the Middle East and resulting loss of sales by Canada.

One respondent noted that promotional "perks" given on a personal basis have been all but eliminated due to low wheat prices which have tightened profit margins.

Market promotion can be based on many different criteria. One feature used by the AWB has been the preference some users have for white colored wheat.

One respondent stated that the best form of promotion involved inward missions along the lines of the CIGI approach.

BRITISH CEREAL EXPORTS (BCE) (Marketing Agencies)

The self proclaimed goal of this organization is to identify the needs of buyers in export markets and to help insure that these are met competitively by UK supplies.

The BCE was formed as a result of a 1985 study which concluded that because Britain intended to continue exporting cereal grain they should create a market development organization to assist in the development of foreign markets. During the formation of BCE, the USWA were used as advisors.

The main activities of BCE have been trade missions to Italy, West Germany and Poland. BCE has also made use of the British Flour Milling and Baking Research Association (FMBRA) in meetings with Polish and Italian millers.

Respondents in this group (other than the representative of BCE) raised concerns regarding the mandate and potential effectiveness of BCE due to the nature of the organization (ie. based on USWA) and the relatively low quality standards of UK cereals.

USWA (Marketing Agencies)

Originally the USWA considered Rotterdam to be an ideal place to base a promotional office, but now there are preliminary plans of moving to another European city. The USWA plan for the EEC market is to provide mainly crop and market information with little or no technical assistance because Europeans do not need it. Major activities of USWA include a free monthly newsletter, along with several foreign information seminars regarding the US wheat harvest as soon as the harvest is complete. Domestic seminars are also carried out in conjunction with Kansas State University and North Dakota State University. The USWA have recommended that increased effort take place to convince consumers of the nutritional value of good quality bread. A second marketing strategy is a push to increase the cleanliness of US wheat in order to compete more effectively with Canadian wheat. A third promotional program involves the introduction of pasta products into the Soviet market. They also believe that potential exists for the development of pasta products in the UK.

Respondents in this group (other than the USWA representative) had mixed opinions regarding the effectiveness of the USWA.

4.4 Group Four - Interviews with Multinational Grain Shippers (6)

The role of the multinational grain trader (shipper) has changed from being heavily involved in buying and selling to the current role of predominantly being a storage and shipping agent. In the past this may be due to government to government sales, for example in Canada the CWB sells most wheat exports on a FOB basis directly to foreign customers. Currently, some wheat is sold to multinational shippers for optional delivery but this volume has decreased since the 1970s. Some CWB sales are on a CIF basis and then shippers are used to arrange shipping on behalf of the CWB. A similar trend has also occurred in Australia. Interview findings are presented under the following seven headings:

EEC GRAIN TRADE (Multinationals)

The inclusion of Spain in the EEC has now increased the supply of high protein wheat (Kahoni and Ucora varieties). Some of the respondents forecast that the importation of Spanish wheat into the UK will soon exceed that of Canadian wheat. A potential restricting factor in this regard is the low cost of using artificial gluten in milling grists to increase the protein level rather than using Spanish wheat which tends to have inconsistent milling characteristics.

A large percentage of intra-EEC trade was attributed to the lack of storage in Greece and Spain.

In addition to participating in the domestic EEC grain markets executives of some multinational grain companies represented in this group were involved in quasi-official agencies such as COCERAL (Comite de Commerce des Cereales et des Aliments du Betail de la CEE). COCERAL is an association of grain representatives from each of the 12 member countries of the EEC. The organization in turn performs a consultative role with the cereals area of the EEC Commission. COCERAL deals with three basic issues, the import/export of grain, intra-EEC trade, and the trade of grain substitutes.[243]

The trade environment is constantly changing, therefore in order to keep current on trade happenings in the EEC and elsewhere, one respondent suggested that exporters must have the personnel in place in key locations such as Brussels and Washington in order to disseminate and understand the implications of changes in policy and trends in trade activity. The major multinationals stated that they have analysts that work exclusively on monitoring and anticipating changes in trade policy. The respondents stressed that one must know and understand the problems and roadblocks to trade before these can be effectively dealt with in terms of political lobby or promotional activity.

Canada, on the other hand, has only agricultural trade representative in Brussels.[244] Considering the amount of trade related legislation that flows out of the EEC Commission some of the respondents consider Canada to be "out of tune" with the EEC market. Conversely, one respondent reported that Australia has three and the US in excess of one hundred fulltime people working in Brussels in the area of agricultural trade.

MARKET PROMOTION (General) (Multinationals)

Traditional forms of market promotion such as technical servicing were considered by respondents in this group to be not as important to western economies as to developing countries. For example, EEC millers utilize advanced milling technology along with considerable experience in the use of most of the major wheats in the world. Therefore, promotional efforts that provide information in this area are not as effective in developing customer loyalty in developed economies as compared to mills in developing economies that may not have access to advanced processing techniques or equipment. The most effective promotion in developed markets was suggested as being flexibility in negotiations

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243 Organizations such as this are used to lobby the government regarding farm policies.

244 As of May, 1988 (Personal Interview)

regarding delivery time, pricing and the availability of credit. Another important aspect of promotion in developed markets is the provision of crop and market information to millers.

The promotion of EEC grain was noted as being the responsibility of member countries themselves. The French government through "ONIC" and "COFACE" is actively involved in the promotion of its wheat in foreign markets such as northern Africa and the USSR. The French offer trade servicing, distribute literature and offer credit guarantees. The main targets have been former and current French colonies. The UK promotional organization, British Cereal Exports, also undertakes similar activities. The respondents interviewed in this group viewed the effectiveness of the British Cereal Exports to be limited. One reason given is the low quality of UK wheat, most of which is used as feed and thus is traded on price alone. Another consideration was its lack of expertise and any "justifiable goals".

One respondent offered the following summary of what market development activities are required to achieve the "selling edge":

1. A strong relationship with buyers, often based on personal contact.
2. Strong technical support to ensure proper processing takes place which must be flexible to the different needs of various cultures and levels of technology.
3. Consistency of quality and supply can be of special importance to gain recognition over competing exporters.
4. Availability of both long and short term credit is important for many buyers.
5. Availability of market and crop information is important.
6. Trade missions are important to the extent they allow exporters to learn about what the competition is doing in a particular market. Goal oriented, specifically researched trade missions can be very effective if the mission is followed by research to answer the questions and issues raised during the trip.
7. Some importers such as the USSR have a negative balance of trade and thus are sensitive to bilateral trade arrangements etc.
8. The international grain trade is such that trust and a good reputation are critical, yet difficult to achieve.

The major weakness of carrying out promotion on an independent agency basis such as the USWA or BCE was suggested to be the coordination of their activities with the actual export of wheat. It was stated by respondents in this group that the most effective promotion is that which is continually performed and coordinated by a central selling agency.

Respondents in this group also noted the importance of quality control as the first criterion on which a promotional package can be based. Furthermore, exporters must know the quality needs of potential and existing importers so to be able to offer them wheat that best suits their need.

When dealing with central buying organizations such as "Exportkleb" the importance of understanding the culture was stressed. Two respondents also stated it is important to know the political views and ambitions of the person you deal with. One must also evaluate their technical background and then attempt to create flexibility in the minds of the buyer.[245] Flexibility was viewed by this group as the key to effective and efficient international trading.

One respondent suggested that promotional activities should be aimed mainly at developing markets, rather than mature markets although a presence in key trade locations such as Brussels and London was also considered important.

One respondent suggested that consumer based promotion has the potential to increase demand for wheat through educating users on its health aspects. Media based promotion by millers in an attempt to product brand their product has been credited by some in the milling industry for reversing the trend of decreasing per capita consumption of bread. Overall this group found it difficult to quantify the benefits of promotion.

CANADIAN WHEAT BOARD AND AUSTRALIAN WHEAT BOARD (Multinationals)

Each of the respondents in this group were familiar with the CWB and AWB and thus were able to compare the strategies and activities of each.

The CWB was criticized for its reluctance to use credit, port loading procedures, "actual" pricing information, and lack of timely transportation and port availability information.

The AWB was criticized for its occasional reluctance to sell into some markets. Also this group noted that although the AWB sells on a quality basis, many customers are not sophisticated enough to appreciate high standards of wheat quality.

One respondent considered the closure of the CWB office in London to be inconsequential because "no growth potential exists" in the UK market. Furthermore, the demand that does exist is self-induced by the quality of Canadian wheat and familiarity in its use by UK millers.

In general the respondents believed that the CWB was "doing a good job" in marketing Canadian wheat. However, the CWB's lack of personnel in Europe was viewed as making the job of monitoring the international wheat trade difficult. Xcan currently might be the only Canadian owned grain trading firm working in Europe. For this reason Xcan does provide some market intelligence to the CWB.

The respondents in this group also noted their role in the export of Canadian wheat has been reduced. As a result this group may have some built in resentment towards the CWB. In particular, Louis Dreyfus is involved in the Argentine wheat industry and increasingly in the Australian industry. Two of the respondents indicated that the role of the AWB might be decreased and the role of multinational traders increased in the future. Some respondents thought that the CWB did not like working with multinationals.

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245 Although the USSR is mainly a cash buyer of wheat through the tender process, flexibility is important when establishing delivery dates.

Four respondents in this group indicated that they considered the CWB to be out of touch with many wheat markets. One respondent suggested that limitations of the CWB were its, lack of involvement in futures trading, and the inability of the CWB to protect itself through use of currency futures, options and other financial instruments.

Members of this group believed the closure of the CWB London office would not effect the imports of Canadian wheat into the EEC because the procedure for buying Canadian wheat is straightforward.

UK MILLING (Multinationals)

Members of this group noted that on a percentage basis, the biggest three millers use little Canadian wheat in their grists as compared to the smaller millers.

4.5 Group Five - Interviews with Government Agencies (3)

Members of this group provided insight into the role and attitude of both the UK Government and the EEC Commission regarding agricultural policy in the grains sector. The interview findings of this group are summarized and presented under the following two headings:

IMPORTANCE OF PROMOTION (Government)

In the EEC the export marketing of agricultural products is not an issue and therefore researchers have not studied this area. The move towards establishing the BCE as a market promotion agency was viewed with skepticism. One respondent considered the activities of independent agencies such as USWA and BCE to be less effective than those coordinated with the export of the product such as the CWB and AWB. The same respondent suggested that the first step in promotion should be to establish consistent quality standards for the product and then use this as the basis for promoting it.

Effective promotion of agricultural products into the EEC was viewed by this group as requiring mainly political lobby, rather than other traditional forms of market promotion.

CANADIAN WHEAT BOARD (Government)

Each of those interviewed indicated that their agency was in touch with the CWB office on a weekly basis until its closure in 1986.

4.6 Group Six - Interviews with Trade Associations and Research Institutes (4)

The institutions in this group deal with a large number of people involved in the wheat trade and thus were able to provide a broad perspective of the issues. The interview findings of this group are presented under the following two headings:

MARKET PROMOTION (Trade & Research Organizations)

Overall, this group considered consistently professional and well planned promotional activities to be of fundamental importance in generating long term commitment. One organization indicated that they have been looking at the possibility of promoting wheat as a generic product, but have yet to raise much support for the idea due to the cooperation

that would be required between competing members. Another respondent indicated that it might be possible to stimulate niche market demand for a bread produced partly, or entirely from Canadian wheat.

The activities and role of the BCE in promoting the export of UK wheat was viewed as a waste of time by the respondents. They felt that the views of their members generally supported this conclusion.

CHARACTERISTICS OF THE WHEAT TRADE (Trade & Research Organizations)

Respondents in this group noted that due to the secretive nature of the international grain trade, interpersonal networks are an important aspect of doing business in this industry. On this basis the general feeling of group members was that the closure of the CWB office in London is a mistake. A trend in the EEC away from super-market bread more towards local fresh bakery bread was also noted by this group.

4.7 Group Seven - Interviews with Canadian Agricultural Trade Officials (2)

Discussions with the respondents in this group mainly involved discussions of activities in the EEC undertaken by the Canadian Government to understand and influence agricultural trade policy. The interview findings from this group of respondents are summarized as follows:

The respondents considered the Australians to be more effective than Canada in presenting well researched and economically sound arguments against EEC trade policies.

The respondents indicated that occasionally they may recommend a person to the CWB for attendance at a CIGI course. However, other involvement in the promotion of Canadian wheat includes preparing itineraries for visiting officials of the CWB, CGC etc., and the conveyance of any information they consider to the CWB.

The Canadian overseas representatives also pointed out the innovativeness of the Australians in using a combination of academics and businessmen in presenting the Australian case regarding the implications of the CAP. It appeared to this group that the Australians are using a wide variety of resources to promote the export of wheat and other agricultural products.

4.8 Summary of Interview Findings From the Seven Groups

Overall there was a high level of interest expressed by many of the interview participants towards this study. All the respondents provided the study team with a warm reception and were generally willing to spend up to one hour being interviewed.

SUMMARY - THE IMPORTANCE OF MARKET PROMOTION

The respondents interviewed were experienced in a wide range of promotional activities. A key activity in the UK and European markets is the provision of crop information. Technical support activities in the areas of processing, handling, storage, and transportation were viewed as useful but of decreasing importance. In less sophisticated markets such as Africa and Asia, the use of technical servicing was considered to be more important.

Many respondents saw market promotion as a method of influencing the attitudes and perceptions importers (customers) have towards the exporter (supplier) of the product (wheat). Promotion was also viewed as a means of communicating factual information regarding the benefits of an exporter's wheat vis-a-vis competitors. The personal and confidential nature of the wheat trade was viewed as making personal contact an important aspect of making sales. Overall, the respondents viewed market promotion in the wheat trade as difficult to quantify yet important as a means of achieving and maintaining long term customer loyalty.

Several respondents viewed market promotion as an important means of customer interaction. Through this interaction, the customers (and import market) could be studied as to changes and trends in consumption and anticipated future requirements for milling wheat.

Some respondents indicated that to have the competitive edge, customers (importers) must perceive the exporter to be innovative, flexible and sensitive to the needs of the customer. Some respondents stated that in order to influence the decision making process of an importer, one must know the position of the decision maker within the firm or organization along with their personal goals and ambitions. Only through a carefully developed relationship with the key people can sensitive information like this be gathered. Moreover, some respondents stated customers liked the contact and the feeling that they are important.

Payoffs and kickbacks in the industry have historically been used to consummate sales, however several respondents believed the practice was becoming less widespread.

In Table 4.1 the relative importance of six categories of market promotion in the international wheat trade are presented. The strengths and weaknesses of four major categories of market promotion are identified for each category based on the opinions of the interview respondents. The interview respondents indicated that the benefits of various promotional activities change depending on the market in question. To compensate for this Table 4.1 is split, based on its perceived importance to a mature developed market (eg. the UK), versus a newer, less developed market (eg. Korea).

SUMMARY - THE UK MARKET

Some of the respondents stated that the UK import market for milling wheat will continue to decline and no amount of promotion can offset the effect of the protective levy system imposed by the CAP. UK millers have a long history of using Canadian wheat and thus do not need to be shown how. They also have experience with using Australian and US wheat, but because of the price incentives established by CAP, are looking towards increased use of Spanish wheat due to Spain's entry into the EEC in 1986.

UK millers are highly sophisticated and thus technical services and support from exporters is not considered to be important. Some respondents believe that Canadian wheat sells itself in the UK and thus a CWB office in London is not needed. Many others consider a London office to be important as a method of maintaining contact with the international trade, collecting market information, and servicing European and African markets.

Table 4.1. The Importance of Four Categories of Market Promotion in the International Wheat Trade (mature versus new markets)		
Promotional Category	**Application to Mature Markets**	**Application to New Markets**
1. Trade Servicing (eg. crop reports)	very important	not important
2. Technical Assistance regarding milling, processing, handling and transportation	not important	very important
3. Consumer Based Promotion (eg. advertising)	potential for increased importance	important when introducing new products
4. Foreign Offices	important for market intelligence	important method for increasing customer contact

RELATIVE EFFECTIVENESS OF PROMOTIONAL ORGANIZATIONS

Promotional organizations that are directly associated with the selling of the wheat, such as the CWB and AWB, were viewed as the most effective. The reasons given were improved knowledge of the technicalities of the trade and coordination of promotional and sales efforts. Organizations such as the USWA and BCE were viewed as being less effective for these reasons. CIGI was widely recognized for its professional approach to in house and foreign seminars. Several respondents believe that the activities of CIGI have been successful in enhancing the image of Canadian wheat around the world.

A common remark regarding the CWB was the perceived inflexibility of the CWB in a number of areas, including price, credit shipping arrangements. Table 4.2 gives an overview of the respondents' opinions regarding the relative effectiveness of the promotional organizations of five wheat exporting countries. Table 4.2 summarizes these findings with regard to the strengths and weaknesses of each countries' promotional organization(s) and approach to market promotion.

Table 4.2. Perceived Strengths and Weaknesses of the Promotional Agencies of Five Major Wheat Exporting Countries

Country	Perceived Strengths	Perceived Weaknesses
1. Argentina	N/A	limited involvement
Australia	-strong foreign presence. -integration and cooperation between government, business, and universities in developing export programs and lobbying increased agricultural trade. -flexibility of AWB in sales negotiations -domestic and foreign milling and baking seminars sponsored by the AWB and the Bread Research Institute of Australia. -communication of quality aspects of Australian wheat.	-unwillingness to participate in some credit markets.
Canada	-domestic and foreign seminars by the Canadian International Grains Institute. -Canadian Grain Commission crop reports. -communication of quality aspects of Canadian wheat. -numerous trade missions	-perceived inflexibility of CWB in sales negotiations. -lack of presence in important wheat trade centers. -market information and intelligence gathering.
United Kingdom	recent organization of British Cereal Exports (BCE).	lack of coordination between BCE and private exporters.
United States	-large foreign representation. -extensive capital investment in pilot milling, baking, pasta and noodle making facilities. -market information and intelligence gathering. -strong foreign presence by US Wheat Associates. -domestic and foreign seminars sponsored by USWA and various regional wheat organizations in the US. -consumer based promotion.	-lack of coordination between USWA and private exporters. -inconsistency of information regarding crop qualities.

MARKET POTENTIAL FOR WESTERN EUROPE

The respondents also indicated several areas in which the marketing of wheat could be improved in Europe. Some respondents considered consumer based promotion of pasta to have potential in the UK and Soviet Union. Another opportunity for consumer based promotion was in the area of specialty (niche) markets for "high quality" leavened bread.

Overall, however, the respondents interviewed consider the potential for market growth to be limited by the strong internal pricing barriers of the Common Agricultural Policy. Unless changes are made to the CAP, the respondents consider increased importation of third party wheat into the EEC as an unlikely occurance.

5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview of the Study

The study identified several conceptual issues related to the study of agricultural commodity promotion in export markets. The major factors identified were:

1. The promotion of agricultural products is inherently difficult due to the homogeneity of products produced in different countries and the extensive processing that often takes place before purchase by the consumer. Another factor is that most consumers have at least some knowledge of agricultural products which makes the creation of new perceptions more difficult.
2. Promotional activities are often carried out by organizations and agencies that do not actually market the product(s). Problems related to market position and assessment of the effectiveness of their programs may occur as a result.
3. The benefits of demand enhancement through market promotion may not only accrue to the commodity groups or countries undertaking the promotion, but rather, to all suppliers of that commodity or product.
4. Long term commitment is required to effectively increase the demand for a product. This creates problems when attempting to justify investment in promotion, as the benefits are often slow to accrue.
5. Even when promotional programs are successful in reducing the elasticity of demand, or expanding demand, the benefit may accrue to the food middlemen (processors and retailers) rather than the primary producers.
6. Quantitative analysis of the benefits from market promotion is difficult due to data availability, model specification problems and the difficulty of distinguishing the impacts of promotion from other economic events.

Next, the study focused on describing the structure of the international wheat trade with an emphasis on the changes that have occurred since the 1960s. The decrease in importance of the EEC as an importer, and current role since 1980, as a net exporter of wheat was

discussed. Other aspects of the trade such as the importance of the Chinese, USSR and Egyptian markets were noted. Factors such as the new milling technologies, farm policies and improved farm production technology were identified as contributing to this change.

The study then describes the many aspects of the wheat export promotional package. Four major categories of wheat promotion that are commonly used were identified as trade serving, market infrastructure servicing, wheat process servicing and baker, pasta and noodle maker servicing. A fifth less common form of promotion, is consumer based promotions and/or advertising. Another important aspect of wheat marketing identified by the study is the gathering of trade and market intelligence.

The next major component of the study was a description of the structure and marketing activities (policies) of the five major importers. The largest government involvement in the wheat market takes place in the EEC and US. The largest contributor to market promotion activities is the US through the thirteen offices of the USWA world wide.

Canada and Australia were also shown to have high levels of commitment to market promotion. In the UK the British Cereal Exports (BCE) has recently been organized, but is still in its infancy. Argentina and France have both historically exported milling wheat, yet the level of involvement in market promotion has remained limited.

The respondents interviewed were from a wide variety of backgrounds. As a result the comments varied in their point of view. This allowed for a balancing of opinion regarding several main issues. Some of the more central interview findings included the importance of trade servicing (Eg. crop information) in developed markets such as the UK and the importance of using promotional activities as a tool for developing relationships with buyers and users of wheat in key markets. Although the UK (and the EEC^{12}) have become small importers of "third country" milling wheat, international trade and wheat industry centers such as London and Brussels were viewed as important locations for doing business.

Although, while the study findings are generally supportive of the hypothesis that CAP policies restrict the potential benefits to market promotion in the EEC, an exception may be found in niche markets for particular grains products.

5.2 Conclusions and Recommendations from the Study

The benefits from the promotion of agricultural products that require little or no processing (eg. milk and oranges) have been studied and quantified by several researchers. However, the benefits from the promotion of primary products such as wheat are difficult to quantify and thus have received little attention from market researchers.

Traditional forms of promotion such as milling and baking assistance are viewed as being important in developing countries and new markets, but less important in mature markets (eg. western Europe). The most important activities in western Europe are viewed as being trade servicing and the gathering of trade and market intelligence.

The Canadian wheat marketing package is viewed by most respondents as being well organized and professionally operated. The strongest areas of Canada's promotional package are viewed as trade servicing and the domestic and foreign courses offered by the Canadian International Grains Institute. A perceived weakness of the Canadian promotional package was viewed as being a lack of (physical) presence in major trade and policy centers such as London and Brussels.

Increasingly in the past four years, representatives of the Canadian grain industry have called for more export market information, increased presence in foreign markets,[246] and enhancement of Canadian marketing tools.[247] Some of these requests have stemmed from depressed world grain prices caused by EEC and US farm policies. Another reason for these requests may also be the result of the increasing complexity and level of competition that is occurring in all areas of agriculture. Studies of market promotion are thus one method of addressing these issues.

The most recent work completed regarding agricultural marketing policy is the Grains 2000 report, "The Road Not Taken: An Opportunity for the Canadian Grains and Meat Industry." Although, some of the recommendations of the Grains 2000 study may not be economically defensible at this point in time, they are considered fairly representative of the current views of the Canadian grain industry. Some recommendations of the Grains 2000 study for Canada are to improve market intelligence and information gathering in foreign markets, improve interpretation and dissemination of this information, continue to educate foreign buyers on the attributes of Canadian products and to use education as a forum to improve linkages, contacts, and loyalties.

Not withstanding the above, a conclusion of the study based on the interview findings, is that market opportunities may be missed when a country such as Canada is not represented in key trade centers and markets. The authors recommend that further research be undertaken to determine the economic feasibility of improving the collection and interpretation of market information in key wheat markets. Included in future research should be an asessment of the costs and benefits to establishing multi-commodity trade offices in selected trade centers and key foreign markets.

Another conclusion of the study is that the farm policies of the Common Agricultural Policy restrict the potential for increased sales of Canadian wheat into Western Europe. The major restricting factor of the CAP is the use of import levies to protect (artificially supported) internal prices. Not withstanding the above this study concludes that some market potential may exist for the development of the durum markets, both outside, as well as inside Italy. Some limited potential also exists for the expansion of niche markets and for the use of high quality wheat in specialty bread markets. Moreover, the promotion of Canadian wheat in Western European markets would likely be consumer driven and

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246 National Grains Bureau. "The Road Not Taken: An Opportunity for the Canadian Grains and Meat Industry." Agriculture Canada, Grains 2000, Winnipeg, 1988.

247 Canadian Grain Marketing Summit. "Final Report of the Ten Working Groups". Unpublished Report, 1986.

thus involve consumer based promotion and advertising. However, the economic benefits of such activities are not clear and should be more closely evaluated before such activities are undertaken.

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