If you ask me . . .

BACKGROUNDER/ *Morris W. Dorosh*

For approximately the last 35 years, the last page of every issue of AGRIWEEK has carried a short essay by the publisher on a matter of current interest.

Topics range widely and are not confined to agriculture or agribusiness.

They may include current affairs, politics, economics, social issues, technology, any subject that could be of interest to an intelligent and engaged readership.

This is, and is intended to be, an outspoken, forthright, opinionated
commentary.

It is polite and respectful except when these qualities would be inappropriate.

Page 8 is a strictly political-correctness-free zone.

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Trump's state-of-the-union address on January 30 could have been delivered by any recent president, except for its length and the number of invited guests with heartstring-pulling stories. Like all such speeches it was written for Trump, not by him, which is mindful of the crack that Trump has published more books than he has read. It was all there, the self congratulation, the taking of the credit for all the positive things in sight, the appeal for unity and 'coming together', offers to co-operate with the Democrats for the benefit of the American people, sensible-sounding ideas for future legislation.

Nothing can overcome the fanatic partisanship that envelopes American politics. Trump's speech was interrupted a possible record number of times by Republican standing ovations while the Democrat half of the House chamber sat on its hands. Honest and reasoned political differences have given way to passionate hatreds, traceable to the start of the Obama interval when Democrats were at the top of the Congressional totem pole.

Trump indeed deserves credit for whatever part of the 2017 tax reform is a president's doing, and the amazing reaction of American business to the lightening of its tax load. Reduced taxes mean higher after-tax earnings for public companies even if they are not growing, and higher returns for shareholders. Anticipation of an improved business climate led to the record run-up in stock prices in 2017. The New York Dow Jones index gained 32.5% last year and another 5.5% in January. The NASDAQ index advanced by 29%. The Toronto stock index was 6% higher at the end of 2017 than at the beginning. This is no stock market bubble, but an adjustment of American stock prices to their suddenly structurally higher value because of their higher returns. Stock markets are a nearly infallible voltmeter of the environment for enterprise. US stocks are soaring because the American business climate is the most favorable since the Reagan period over 35 years ago. Canadian stock values are stagnating because the Canadian business climate is the most adverse since the last Trudeau. Everybody has a stake in the stock market including the majority of the public that does not even know it.

Trump's star-performance speech did not change Trump. All the odious features of his personality and conduct remain. The president who now expects political adversaries to co-operate with him spent the last year insulting, demeaning and abusing them. He has alienated nearly every other world leader, as was shown at Davos. America first does so mean America alone. In Trump's world view every aspect of life is a continuous, intense competition from which it is possible to emerge only as a winner or a loser. There are degrees of winning. It is not enough to obtain a marginal or ambiguous victory. A win must be total and overwhelming and the loser must be crushed. This is a highly specific meanness and those to whom it seems like a mental illness can be excused.

Trump has not attended a NAFTA session but he dominates the proceedings to an extent that Canadian negotiators and politicians clearly do not understand. Trump cannot be cornered or maneuvered. This is a man who does not recognize, much less acknowledge, defeat even when it is upon him and after he has unknowingly experienced it many times.

As the NAFTA adventure unfolds, it becomes clear that Trump firstly has not decided exactly how he expects to win or what the definition of a win is, and second that none of his few allies is enthusiastic.

NAFTA can survive in two ways regardless of what Trump does. It is being mentioned that the negotiations could be suspended after the March session until after the Mexican presidential election in June and the US mid-term election in November. This is more plausible than it sounds because the only urgency in the process has been place there by Trump. There is a high possibility of dramatic developments in the Russia investigation that could disable the presidency for an extended time and imaginably end it.

The other way is for the Congress to simply refuse to act if Trump serves notice of a NAFTA withdrawal. The president has the authority to do so but legislation amending numerous US laws is needed to give it effect. The Congressional leadership could put such measures at the bottom of the agenda literally for years. Recently 36 of 51 Republican senators signed a letter to Trump urging him not to abrogate NAFTA.

There is no possibility of a good NAFTA outcome as long as Trump is president. But Trump is temporary.

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In the US Congress the Democrats want to raise government spending and raise taxes. The Republicans want to raise government spending and reduce taxes. The Republicans are in control and very close to setting in motion an American tax revolution. Very similar tax reform bills have been passed by both houses of Congress and are being resolved into a single measure that could be signed before the end of the year. The Tax Cuts & Jobs Act is the biggest change in US tax law since 1986.

While both corporate and personal taxation is being extensively overhauled, the changes proposed for taxation of corporations will not only bring high US rates to the lower part of the world range and give American companies new tax advantages. They will create incentives to consolidate many operations in the US, and disincentives to invest in other countries, including Canada.

The biggest change is a proposed reduction in the corporate income tax rate to 20% from 35%. The comparable rate in Canada varies by province but is between 26 and 30% for companies that do not qualify for the small business rate. The new US rate will take effect for the 2019 tax year unless hastened during the reconciliation process. Reducing the corporate tax rate will increase corporate net earnings by an estimated $1.5 trillion over 10 years. The second-biggest change will allow capital expenditures made in the next five years to be written off in total in the year in which they are made. Besides creating unprecedented incentives for capital expansion in the US, the reduced tax liability will enable companies to keep more of their earnings or distribute more in the form of dividends to shareholders. Finally, American companies which are keeping accumulated earnings in the hands of foreign subsidiaries in countries with lower corporate tax rates will be able to repatriate such assets at a rate of 5 to 12% for a limited period. Estimates of the amount of mostly liquid assets parked in foreign countries to avoid tax run to $2.5 trillion, roughly twice Canada's entire GDP. Foreign income earned by US companies could be taxed at low rates in the future to prevent new accumulations of income in untaxed foreign jurisdictions.

While the Trudeau government is victimizing small companies, the US tax bill will simplify and ease tax treatment of so-called pass-throughs. Owners of sole proprietorships, partnerships, LLCs and so-called S-corporations will be able to receive income from these entities directly before tax and pay a personal rate of 25%, subject to certain reasonable conditions. There are also numerous tax concessions to individual taxpayers, which will primarily benefit middle- and upper-income earners and investors who have been the targets of a series of harsh tax changes over the last 30 years.

These measures are intended to bolster US business activity and it is hard to see why they would not at least mostly succeed. Although academic economists have a strangely varied assortment of views, for at least the next few years these measure will create a corporate tax environment that few developed countries can match.

Certainly Canada does not match them. An American subsidiary of a Canadian company is an American company. Canadian companies, especially in manufacturing and processing which sell in the US, will be carefully considering their strategy in the light of these developments. The near-certainty that NAFTA will not survive and the barrage of highly threatening labor legislation in several provinces and the federal level are added to the appeal of dramatically lower taxation as incentives for Canadian companies to establish or expand American operations.

There is a long-standing claim among conservative proponents of these reforms, shared by few economists of stature, that economic activity will be so greatly increased that tax collections at the lower rates will increase. If not, the tax reductions could add $1 trillion to budget deficits over 10 years and raise the debt-to-GDP ratio, which is already near 100% after debt doubled during the Obama period. For perspective, it is 243% in Japan, 70% in Germany, 28% in China, 89% in the UK, 98% in France, 136% in Italy and 62% in Canada, including provincial indebtedness.

There is no such thing as a bad tax cut, unless it is a tax cut not matched by government spending reductions. There appears to be no strong movement even in the most conservative US circles to attack government overspending or to shrink the staggering size of its government. Unless one develops there are serious risks to the entire world economic system from open-ended, uncontrolled US deficits: inflation, currency depreciation, crowding-out of private sector capital.

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Although it conducts a census every 10 years, the Indian government does not know how many farmers are in the country, or for that matter how many people. Its total population is officially estimated at 1.32 billion, just behind China's 1.41 billion, but could be higher or lower by many millions. The last census in 2011 counted 119 million farm operators and 144 million employed farm workers, 22% of the population producing 18% of GDP. Whatever their true number, farmers and other rural dwellers are a powerful political constituency which governments do not offend.

Nobody knows how many civil servants there are either, but at the federal level and in 25 states the number is somewhere between 11 and 13 million, said to be the world's biggest payroll. The top layer of the bureaucracy, which may number as few as 5,500, makes and enforces a vast array of programs and policies with little or no political supervision. Elected legislators pass laws and design policies which are handed to the bureaucratic machine for interpretation, implementation and enforcement. What comes out often does not even resemble what went in.

The lack of transparency and clarity in this system explains a lot of what is behind the unfortunate recent experiences of the Canadian pulse crop industry as a supplier to India. The reason so little information could be obtained about import developments is that the Indian civil service is not in the habit explaining itself to anybody. Abrupt, erratic, unexplained and even unpublicized change in regulations is the normal condition.

The Indian government actually has three agriculture departments and two agriculture ministers. Together they are responsible for the welfare of farmers and the adequacy and affordability of food to the population. These objectives can be conflicting. Because of unreliable information, an accidental bumper crop and bureaucratic incompetence, the supply of food-grade peas in India ballooned out of control in a few months. A government reserve is used to support incomes of domestic growers. Prices were set at unrealistic levels, leading to a collapse of demand for home-grown peas and an import surge, which led to the 50% duty. This is a blowup of ridiculous Indian food policy that misunderstands or ignores market forces. Since the duty was applied, long before it could have had any effect on physical supply, the price of peas at retail jumped 44%. Importers and brokers holding inventories got an instant incentive to hoard them and to sell at a restrained rate to hold prices up. Sales from the big government reserve go through the same network of dealers and brokers who imported pulses. They know that action is just ahead, perhaps prohibiting hoarding or capping retail or wholesale prices, but they mean to profit while they can.

All Canadian crops except wheat, soybeans and eastern corn have very concentrated export markets and a high vulnerability to unforeseeable demand disruptions by a few very large buyers. In recent times we have seen canola exports to China suppressed by government acts on the phony grounds of dockage and blackleg. The flax market in Europe has been mostly lost because of an even phonier concern about unapproved GMO traces. Mexico, oddly at one time the biggest importer of canaryseed, stalled imports over weed seeds.

What does the Canadian pulse sector do now? The sudden stoppage of Indian pea imports is just half the problem. The other half is that, also because of the Indian market, pea and other pulse production has exploded in eastern Europe, Australia and the US. There is enough inventory for almost two crop years if Indian buyers do not return. Despite efforts to broaden and increase it, use of pulses in foods remains a highly ethnic-centred business. Prices up to now have been set in the food market, too high for animal feed users. Peas are an excellent source of feed protein but feed manufacturers are notoriously reluctant to change formulations to take advantage of lower ingredient prices. The prospects for replacement demand to make up for the lost Indian market are poor. No one can say if, when or on what scale Indian buying of peas will resume. The lentil situation also is not too clear and there is at least some risk that India will act to restrain imports of lentils also.

Farmers can grow something else on pea land next year, but dealers and processors do not have such options, especially small companies that flourished in recent years. While not everyone sold to India, peas that India no longer takes will back up through the supply chain. There were about 300,000 tonnes in commercial inventory when the duty was announced and an unknown quantity contracted with growers. Losses to the trade from the fall in inventory value could be $30 million. Buyers other than Indian could cancel contracts because prices are falling. Pea seed suppliers will be hit by less demand and lower prices for 2018. This is a blow to crop diversification in western Canada and the idea that there are worthwhile unconventional crops out there outside the commodity mainstream.

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The Canadian public is sleepwalking into the disaster of carbon taxation with barely a whimper being raised. Those who realize what it will mean to their personal standard of living and the nation seem to think that financial pain is necessary if we are to be environmentally responsible. Likewise with the abuse of the constitution represented by the federal government's imposition of anti-carbon targets and the massive intrusion into areas of provincial authority. To be sure, the provinces at the cutting edge of carbon-tax stupidity (Ontario, Quebec, Alberta, BC) don't mind. They are ahead of the Trudeau government already. But the federal plan, which is highly detailed, is the minimum. Provinces can create their own plans but if they are short of the federal scheme in any particular the federal rule will apply. Provinces are encouraged to impose even harsher tax rates and terms.

The carbon tax is easily the most extreme intrusion into provincial jurisdiction since the National Energy Policy, which it somewhat resembles. It is an imposition of standards designed by the federal government on the provinces that the provinces cannot resist. The federal government acknowledges that many issues are constitutionally under provincial jurisdiction, but it is proceeding anyway, on the basis that climate change is so important that measures to contain it can literally ignore the rule of law.

Hardly anybody seriously questions this federal master plan, even people who have bothered to find out what n energy and fuel cost increases are coming. By some time in 2022, in less than five years, the carbon tax will add 11.6 cents to the price of a litre of gasoline, 13.7 cents to diesel fuel, 7.7 cents per litre of propane, 9.9 cents per 1,000 cubic feet of natural gas and $112 a tonne of coal. This will be 10% or more of the retail cost of these fuels. (The federal tax supposedly will not apply to farm fuel, but it is not clear that provincial plans all exempt agriculture). A highly detailed plan for collection and enforcement, including aggressive auditing, has been prepared. Record-keeping, paperwork and evidence of compliance will be much more onerous than required for the GST.

The federal government states that if it is 'forced' to collect the tax in provinces that fail to create their own schemes, the funds so collected will be returned to the jurisdictions in which they were collected. Provinces that already collect such taxes, such as Alberta, have rebate or other plans that pretend to make carbon taxes neutral. But tax collections are not returned to those who pay them. Depending on the province, the carbon tax is either a new source of public revenue for general purposes or another wealth redistribution scheme masquerading as an environmental initiative.

A system that returns benefits in exact proportion to what each individual or entity pays in a carbon levy would be impossible to design. If it were possible it would have no effect in discouraging carbon-heavy energy use because each consumer would know that the extra cost will be retrieved later. There is no intent to refund the separate emissions penalties to be levied on large industrial users of energy, who will have to absorb them or buy offsetting credits, including export-oriented industries and companies which compete with those in other countries that are not similarly burdened.

The simple-minded theory is that energy users will cheerfully, quickly and inexpensively switch to forms of energy that are not taxed. This is an improbable and untested assumption. Changing established energy use practices entails capital investment to escape harm. A carbon tax is protection money. Unless the business or consumer does what the government mafia wants (use less energy or change to different forms of energy) they will be penalized. This is exactly what the Conference Board of Canada said in a study issued in September, which attracted little notice. The federal carbon tax scheme will result in GDP reduction of $3 billion in 2018, immediately that the first stages come into effect. Higher prices for natural gas, gasoline, electricity and other energy will raise costs of literally all goods and services, causing higher inflation and discouraging consumer spending and productive business investment.

The only provinces that are attempting to protect their citizens from this assault are Saskatchewan and Manitoba. Manitoba last week proposed a compromise plan that it said accomplishes more with a lower carbon tax burden. Saskatchewan is ready to go to the Supreme Court, where it may not find principled support for the constitution. The Trudeau government will stop at nothing to whip them into line.

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Readers of this newsletter know better than the people, academics and assorted largely self-appointed experts mostly, who agonize, primarily for profit, over the impossibility of feeding the world of tomorrow. By assiduously following events and trends, and the statistics that we find as boring as anyone, we come to the only possible conclusion, that the capacity to produce food is steadily outrunning the capacity to consume. Current events regularly confirm it. Growth in global demand for basic foodstuffs has slowed, and in the case of wheat has at least temporarily stopped. Production continues to increase without heed for prices, for two principal reasons, one being the realization of the agricultural potential of eastern Europe and South America and the other being the slow but steady improvement in agricultural productivity in advanced countries arising from technological progress. Demand for meat is growing but not at the rated predicted even a few years ago, on the assumption that dietary improvement is among the first manifestations of higher incomes and living standards.

To the agribusiness owner or executive as well as the farmer this is all quite abstract except for what it implies for agricultural prices. Crop prices 10 years from now will set the parameters for farm income and profitability and shape the market for the things farmers buy 10 years from now. No capable management does not spend some time thinking 10 years ahead.

It happens that crop prices over the next decade are highly likely, in fact certain, to be much less volatile than during the last, no matter what happens with the variations in weather, including climate phases, short of a nuclear winter. They are also highly likely to be persistently lower. World crop surpluses are so large that annual variations in production do not have the effect that they had in the past or would have if reserve stocks were closer to historical ranges. This cuts both ways. If prices are not likely to be as depressed by bumper crops, they also will not rise as steeply if bad weather reduces output. This phenomenon was demonstrated this year with the drought in Australia, which cut the wheat harvest by 35% from 2017 without any effect on world wheat prices, even though Australia is a major exporter.

Among the more respected sources of price and agricultural economic projections is FAPRI, the Food & Agricultural Policy Research Institute at the University of Missouri. Its extended outlook, recently updated, forecasts the season-average US farm price for soybeans of between \$9.07 and \$9.85 a bushel to 2023-24, wheat between 4.79 and \$5.16 and corn between \$3.35 and \$3.80. These being averages, there will be periods within crop years when prices might fall outside these ranges, but peaks and valleys will be less pronounced.

Over the last 10 years the US farm-gate crop-year average prices ranged from \$6.43 to \$14.40 for soybeans, \$4.26 to \$7.77 for wheat and \$3.62 to \$6.89 for corn. The high was 2.23 times the low for soybeans, 1.82 times for wheat and 1.90 times for corn, much higher than historically.

American prices are the benchmarks for the world, adjusted for exchange rates and other local factors. In the last 10 years the cash price of canola in Saskatchewan at the present point in the season ranged from \$367 a tonne (2009) to \$602 (2012). In the next decade and perhaps beyond the range will be much smaller, probably within \$50 above or below the current price, which was \$470, most of the time.

Of course it is not possible to have 100% confidence in such projections. But they are the products of the best information and analysis capability that currently exists. And they make sense in light of everything else that is known.

If it is accepted that crop prices will be lower and more stable than in the past, several strategic ideas suggest themselves. The most obvious is that the notion of repeating price cycles is now more or less obsolete. It cannot be assumed that a few bad years in the market are sure to be followed by a few good years, or vice versa.

These figures strongly encourage conservative budgeting and planning. In all business timidity and excessive caution results in lost opportunities, but undue and unsupported optimism is a straight line to disaster.

The emerging crop powerhouses of the world have the structural advantage of lower costs of production and of doing business. They cannot be matched in the first world so they must be offset. The only way to do so is to minimize costs per unit, which can only be achieved by higher yields, which can only be realized by embracing every technological advance as soon as it is proven.

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The Trudeau government is standing fast against mounting outrage over its proposals to change taxation of incorporated family companies and their owners. It is doing two things: showing its disconnection from the people who own and work at such companies, and badly underestimating the political risk it is taking.

The 63-page paper that started this was issued in July, including 25 pages of draft legislation. Some provisions will be retroactive to the date the paper came out (July 18) and others would apply for the 2017 and 2018 tax years. The tax proposals are so complex that tax accountants and lawyers, including the largest national accounting firms, cannot explain them in plain English.

A public consultation period during which the government is pretending to receive feedback ends on October 2. However no finance minister or prime minister sincerely interested in taxpayer and tax planner comments and suggestions would be going around defending the plan against all comers.

This is not the place to even try to describe this monstrous scheme. Google canada tax plan morneau and talk to a tax accountant, if you can find one: the good ones are already up to their eyeballs. Tax accountants say these are the most serious tax reforms since 1971 when the government of Trudeau I introduced taxes on capital gains, on the advice of the infamous Carter Commission. With confiscatory income tax rates, it put Canada on the road to the highest tax burdens in the western world while continuing to run the biggest budget deficits Canada has ever seen, before or since if in constant dollars.

The government, that is to say elected members and ministers, are not smart enough to think this up all by themselves. This has the fingerprints either of Gerald Butts, the prime minister's unknown, unelected, unseen one-man brain trust and the Steve Bannon of Canada, or a cell within the tax department that has noticed while auditing tax returns that some small business taxpayers are not paying taxes at the rates they are paying. This reeks of envy and jealousy on behalf of the lowest class of the Liberal support base. Probably similar suggestions were made by the career professional tax collectors to the Harper government, which undoubtedly told them where to go.

It's a done deal. The finance minister, the prime minister and the tax department never had any intention of being influenced by anything the public or tax professionals had to say, let alone the small business lobby.

Even if they were closing loopholes, the changes will increase federal revenue by a peanuts $250 million a year out of the total tax take of $300 billion. This is not about raising revenue or cutting the deficit. It is about persecuting and victimizing a particular small class of people and preventing their success from being aided or abetted by the tax system.

But these are not tax loopholes. They were put in the law to reflect differences between the situations of salary and wage earners who take no business risks and entrepreneurs who put their livelihood and savings on the line every morning. Once upon a time taxation of small businesses took into consideration the ways in which their situation is different from that of large corporations and the way the situation of entrepreneurs differs from that of salary and wage workers. Taxation of farms, as proprietorships, partnerships or corporations, also reflected the uniqueness of farming. Once upon a time.

Small business owners are excluded from unemployment insurance, pay themselves the minimum wage only if their companies can afford it, have no backstop in case business goes badly and benefit from no labor law or code. They are on their own, including against this savage socialist attack. Like Karl Marx, this government thinks tax fairness is achieved by cutting down those who are successful. The more successful they are, the more harshly they are to be treated.

The finance minister said and the prime minister parroted that the two-thirds of small business owners who earn $73,000 a year or less will not be impacted by the changes. The other third can go to hell. Compare that to the average federal civil servant who costs the country $114,100 a year, has lifetime job security, the most powerful union to wring out regular raises and the sweetest pension benefits in the western world.

This is the Liberal value scale. The Trudeau government is exposing itself for what it really is. There is no way out of this except regime change in Ottawa. No Conservative government would ever do this. Any NDP government would do it. It's not the first Liberal assault on small business. The Harper government had set phased reductions in the federal income tax rate on small companies from 13% when it came into office; it would have reached 10% in 2016 had Morneau not cancelled it as soon as he could.

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How time flies. The end of the 2016-17 crop year marked the fifth anniversary of the extermination, like a vermin, of the Canadian Wheat Board.

In the same way that there was never a means, by design, to measure the Board's performance as a marketer of western wheat and barley, there is no way now to quantify the benefit that accrued to western farmers from its removal. The post-CWB period included crop years of record world wheat prices, of which Canadian wheat (and to some extent barley) growers received the full benefit. It also saw record wheat production in western Canada, notably in the remarkable year of 2013-14 when yields of all the main crops set records because of the coming together of exceptional growing season conditions. But as discussed elsewhere in this issue, exports of Board grains in the five years since marketing freedom averaged 21.63 million tonnes a year compared to 17.97 million in the Board's last five years. To be sure, everything that has ever been grown in western Canada has been disposed of regardless of the marketing method. But higher post-CWB exports were possible because production of wheat increased in anticipation of and as a result of a free, open, competitive market.

For farmers the changeover was not as traumatic as monopoly-marketing defenders predicted. In fact it was not traumatic at all. Overnight, wheat and barley began to be sold just like canola. At first grain companies offered pooling plans that resembled the Board's decades-old cost-minus system. Interest in the pools was limited and soon evaporated. Forward-selling and pricing contracts similar to those available in the US and for non-Board crops appeared and are understood and accepted. Selling grain at or soon after harvest, which the Board system prohibited, increased greatly and the grain trade was able to absorb off-the-combine selling without severe harvest-time price depression. Marketing freedom meant the ability to sell and get paid when the producer wants, not when a bloated bureaucracy wants.

The grain trade also readily adjusted to substantial changes in the business. For decades grain firms handled, stored and shipped Board grains as a service for fees. Overnight they had to buy out the Board's inventory and finance it. Under the bullet-proof monopoly the Board cared little and knew less about efficient inventory levels because whatever the cost it was simply deducted from the leftover that farmers were paid. Farmers themselves bore much of the multi-million-dollar inventory financing burden by waiting, interest-free, for up to 17 months for payment. In a very real sense they were forced by law to turn over their crops to the Board on consignment. Grain companies, to whom inventory maintenance became an expense, quickly learned to manage it in more efficient ways and had no difficulty financing it. Best of all, managing their own logistics allows them to get the full benefit of physical improvements and sharper management. No more of the Board hogging storage and transport or allocating rail cars.

The end of the Wheat Board was the trigger for an unprecedented wave of new investment in western grain infrastructure, to the point that overcapacity is a distinct possibility in the near future. However that is free enterprise. International grain companies were not interested in coming to Canada to work for a capricious, overbearing Wheat Board. Now they are very interested and the entire agricultural economy benefits. Where for a long lifetime there was one buyer for wheat and barley and one price, there are now many buyers competing aggressively for grain, creating incentives and working to figure out the needs of their customers and how to meet them better than the next fellow does.

The Wheat Board, especially after it fell into the hands of elected farmer directors who turned it into an engine of leftist propaganda and agitation, had a corrosive social impact in western Canada that begs to be explored. It drummed into prairie farmers the idea that it was their defender and protector against a predatory, dangerous and hostile outside world; and that the rules it imposed were trifling compared to what would happen to them if they had to stand alone. This led to the peculiar atmosphere seen to this day, of suspicion and dissatisfaction among farmers in their interactions with buyers of their crops and suppliers of their inputs. The notion is passed from generation to generation that a farmer cannot even hope to get a fair deal from a grain buyer, a seed seller, especially a chemical company, a farm equipment dealer. What a horrible legacy.

The Wheat Board system was serfdom, under a particularly incompetent and irresponsible master. If it did not already exist, this would be the perfect time to invent the term 'good riddance'.

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If you ask me . . .

B A C K G R O U N D E R / *Morris W. Dorosh*

In November 2016 the Trudeau government announced that it plans to develop a renewable fuel standard with the aim of reducing carbon emissions from all sources that use energy by 30 million tonnes a year by 2030. A 16-page discussion paper has been issued along with an invitation for public comments. A few workshops have been held with the usual interests that this government considers important: provinces and territories, indigenous peoples, non-government organizations. A set of requirements has been devised, including conditions that must be met by the standard. It would cover all non-fossil biofuels, including electricity, hydrogen and renewable fuels. It will also cover all uses of energy, including all transportation modes, heating of buildings and industrial uses. The discussion paper is heavy on regulation and very light on incentives. The Canadian RFS is to be integrated with the carbon tax and possibly with systems for trading emissions credits.

Like everything else this government does, there is more light than heat, more motion than progress.

At present federal regulations require that 5% of gasoline and 2% of diesel fuel must be renewable, for practical purposes ethanol and biodiesel. These regulations were developed early in the first Harper administration, more or less patterned after the American system which created the ethanol and biodiesel industries. Various incentives for production of renewable fuels were offered, which have now mostly expired. The Harper government seemed to lose interest in the subject soon after.

A renewable fuel industry with sufficient capacity to meet the modest current requirements has not developed because the mix of crops in Canada does not offer a competitive supply of feedstock. About 20% of the corn grown in eastern Canada is used for ethanol, but it does not fill the demand created by the 5% blend requirement. Ethanol must be imported from the US. In western Canada a small ethanol sector has developed using wheat, but in normal years wheat is not a viable raw material for ethanol because of its cost. Wheat priced closer to corn is available only in troublesome seasons when a large proportion of the wheat crop is of below milling quality. Biodiesel from vegetable oil faces a similar situation. Canola oil is a premium food oil. For this and possibly other reasons the economic framework for a renewable transportation fuel industry is not favorable even with usage mandates. Ethanol is plentiful in the US at prices comparable to gasoline and unless import controls are imposed a Canadian biofuel industry cannot compete. Nowhere in the RFS discussion paper is there any reference to opportunities that could be created for an expanded domestic industry and associated economic activity, or any interest in exploring what could be done to foster it.

The Trudeau government's objectives for the volume of low-carbon or zero-carbon energy production probably exceed the physical capacity to produce it in any form. Wind and solar power production has been commercialized to some extent and the economics have been tested but are not promising, at least not at costs bearing any relationship to energy from natural gas, oil and coal.

The government has also placed a deliberate obstacle in front of its own policy: alternate energy plans will be evaluated based on the life-cycle principle. This concept holds that all carbon emissions throughout the production and consumption phases of alternative fuels must be included. This is precisely the reason that there is little scientific agreement over the value of agriculture-based renewable fuels in reducing greenhouse gas emissions. The life-cycle view is that carbon emissions must be charged to ethanol that occur, for example, from before corn is grown to after ethanol is burned. Carbon emissions from the production, transportation and application of fertilizer and pesticides, fuel used in farm machinery, energy used in transporting corn from field to distillery, all are included in this measurement. The opposite position is that since the corn will be grown regardless of its end use, only carbon emissions resulting from production of the fuel should be considered. The difference is whether the amount of energy in ethanol exceeds the energy required to produce it.

Agriculturally-based alternative fuel production, not only in the US, has been a godsend to world agriculture at a time when the capacity to produce crops worldwide is routinely exceeding needs for conventional uses. There is nothing in the Trudeau plan to advance it in Canada. If the life-cycle principle is literally applied to American ethanol, even that might not pass the carbon-reduction test.

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If you ask me . . .

BACKGROUNDER/ *Morris W. Dorosh*

Some people think global warming theory is 100% correct. Others think it is 100% wrong. In between is the overwhelming majority which is not sure, but which acknowledges it to some extent. At a time when 30 or 40 years of research has not led to consensus in the scientific community it is a lot to expect ordinary citizens to have informed opinions. However acting as if global warming theory is not correct is nearly the outer limit of political incorrectness. It seems safer to accept than reject these theories, in light of what is not definitely known, so the populations of advanced countries now readily acquiesce to the out-of-control economic and political juggernaut that climate policy has become. It is like a continuous spell of very bad weather. There is a big hair-shirt component: many people think that economic sacrifices, in the form of reduced living standards, are required to prove that they are doing their share to protect the planet.

There are three things to keep in mind about the Paris climate accord, without getting into the validity of the theory that underlies it. First, it is voluntary with no means to enforce the undertakings that signatories made. Second, it represents participating countries' offers to reduce pollution with no external assessment of whether they are appropriate, proportionate or bound to be effective. Third, in the lifetime of no one now living, there is no means to measure the final results, which is the change if any in global temperatures.

Trump's belligerent withdrawal of the US from the agreement and the domestic and international condemnation that followed was unnecessary. Trump had already cancelled onerous Obama measures such as the executive order that would have ended electricity generation using coal. The administration could have said nothing, ignored or rescinded other measures it inherited, refrained from enacting new ones and declined to enforce those that are pending. That is how the Chretien government of Canada dealt with the predecessor Kyoto accord. It was effusive in its support but did nothing, and no one much objected except the ecomaniac fringe.

Simple arithmetic was ignored in the Paris agreement, as in much else to do with environmental protection. The US is responsible for 14.3% of the world's calculated greenhouse emissions and China for 29.4%. Canada is responsible for 1.45%. A 10% reduction in US emissions equals approximately a 5.2% reduction for China. China said it would reduce its emissions by 64% by 2030 compared to 2005, but 13 years from the target date they are still increasing. Canada could stop all emissions immediately (which would require depopulating and shutting down the country) and it would amount to barely one-half of 1% of China's emissions.

The Trudeau government cavalierly promised in Paris to reduce greenhouse gas emissions by 30% below 2005 levels by 2030. Notwithstanding drastic measures to be implemented, including punishing carbon taxes, an independent assessment by the CAT consortium of climate change alarmists said that by 2030 emissions in Canada will be 14% to 29% above 1990 levels. The merchant ships that ply the seas emit more carbon than Canada (1.78% of the world total) and commercial aviation almost as much (1.39%) and there is no plan or requirement to reduce them.

Many environmental extremists hold that the true way to measure contributions to global warming is greenhouse gas emissions per capita. The three worst polluters by this standard are Qatar, Kuwait and United Arab Emirates, where electricity is generated by burning oil (which is cheaper there than water) to run air conditioners continuously. Their per-capita average is 28.6 tonnes of GHGs per person per year and their aggregate population is 21 million. In North America and Europe the average is 12.8, despite cold climates, long transportation distances and comparatively thinly-dispersed populations, especially in Canada (which emits 15.1 tonnes per capita). How relevant is it to compare countries with vastly different circumstances?

The Paris accord is a monumental farce and whether the US drops out of it, or whether Canada twists itself inside out to remain, will ultimately make little or no difference because hardly any of the 195 signatories will even come close to meeting their undertakings.

Not to mention that even if they do meet them it is not assured that there will be any difference.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

After 106 days do we know *anything* about Trump which helps us to even guess what the next 1,354 days will bring for the Canadian economy? I would have to say that we don't. We really don't.

The immediate issue, unless you are in the lumber business, is NAFTA. Various people, including our prime minister, the president of Mexico and new US agriculture secretary Perdue, claimed credit for changing the mind of Trump on this hottest of Canada-US issues. Actually there is no evidence that he changed his mind. The network archives are stuffed with TV clips from his campaign in which he alternately threatened to cancel NAFTA on Day One ("the worst trade agreement in American history, maybe ever"), merely 'tweak' it, renegotiate it at better terms for the US, or try to renegotiate it and then cancel it if the right result is not readily obtained. At different times the prime target was Mexico, Canada and both equally. Trump's pronouncements on NAFTA were contradicted by others in the administration, sometimes on the same day, without clarification. The bottom line is that there is no coherent policy on NAFTA, and the Congress will have a major influence ion what eventually emerges.

No leader of any country has ever so insulted and verbally abused other countries during an election campaign, or at any other time, the way Trump has without declaring war. For a time China was the root of all America's economic ills, a currency manipulator and a trade predator on whose goods a prohibitive duty would be soon imposed. But he has said nothing on trade since meeting top Chinese officials, the focus having moved to North Korean atomic bombs. Trump seems to say that if China can fix the DPRK nuclear problem all will be forgiven and the lopsided trade balance with China can continue. Trump's relations with the Russian dictator Putin warmed, cooled and are warming again in a space of a few months. NATO was obsolete and an unfair cost burden on the US during the campaign but now all is back as it was. Trump's signature idea will always be the Mexican border wall, a third-century solution to a 21st-century problem, but it appears to be fading because it is not within the president's sole authority to have it built. Likewise his health care reforms; the trouble with the US medical system is not how its services are paid for but that the average cost of medical care per person exceeds the lowest incomes, so ineffective are cost disciplines. Trump would reduce subsidies to the poor, which should increase competition for a smaller demand, which should ultimately lower costs. Polls show that more respondents prefer the existing system to be retained than approve of the president's performance in office.

Trump's appeal to many voters is his lack of political experience. Politicians are less respected than ever and more reviled as a class. However politics is a profession in the US and professional qualifications are required. Trump had an extremely weak understanding of the mechanics of the US government when he set out to run for the office. Elaborate promises flowed forth based on faint conceptions of how American laws are made. Almost all of his executive orders have been challenged in the courts, not because the courts are overstepping their authority but because Trump is exceeding his under the Constitution. Adverse court rulings and other opposition do not cause Trump to reconsider policy or strategy. So far his only actual positive achievement was the Gorsuch nomination to the Supreme Court, which likely would not have been confirmed if not very deft management in the Senate.

In the absence of a better explanation we have to take it that Trump thinks what he says, which means his perception and policy intentions are in a similar state of nebulous flux. Trump's statements have not been modulated since the election.

He is the only American president to continue to campaign, especially at regular rallies of supporters, after an election as if it were still ahead. The election organization, which is largely intact, spent $1 million on election-style advertising last month. Trump seems to get his oxygen from the adulation of crowds. For him the best part of being president seems to be running for president.

Trump's popular support is neither eroding nor growing, firmly in the 30s and 40s. His people are foursquare behind him. Partisan opposition has coalesced and the Democratic party opposes everything he proposes as it would with any other Republican president.

As other countries watch Trump in action the nature of the challenges ahead in relations with America is starting to take shape, and they are strange shapes indeed. The first reaction seems to be to try to get along. Everybody knows you can't appease a bully. We shall soon see how many countries, and which countries, apply schoolyard smarts to international affairs.

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If you ask me . . .

B A C K G R O U N D E R / *Morris W. Dorosh*

The Canadian Centre for Policy Alternatives says that it is an 'independent and non-partisan' think tank. That is not the only lie it tells. In truth the only people to its ideological left are the Marxist-Leninists. It is a huge engine of radical-left propaganda financed (to the tune of $6 million a year) by labor unions and such donors as support the NDP. So when it set out to do a 'study' of farm land ownership, *Who Is Buying the Farm?*, it was obviously with a foregone conclusion. The authors are academics with backgrounds in social studies, human rights and 'social justice'.

They searched land titles records, those of the Saskatchewan Farm Land Security Board and material from earlier research for owners who did not appear to be local farm families. They found 37 large investors who own 837,000 acres of the province's 64 million acres of farm land, up from 52,000 acres in 2002. In 16 rural municipalities investors own 5% of total land or more; elsewhere concentration is even more insignificant. Nine of the investor-owned farms are under 20,000 acres, which today is a good-sized family farm.

These numbers are straightforward and reveal nothing everyone does not already know. But the paper claims that investors paid an average of 39% more than farmers in arm's-length transactions and 72% more than intergenerational purchases: $882 per acre compared to $633 and $513. Since no two pieces of land are identical and since the data the authors used did not describe relative quality, the claim is meaningless. Few investors are stupid enough to overpay for land, especially by the roughly $150 per acre implied by this comparison. In fact investors are less likely to overpay because they have more sophisticated methods of value analysis.

As is well known to anyone who knows anything about the subject, investors are interested only in the highest-quality land which is naturally the highest-priced. Purchases by farmers include all types and qualities, so that such comparisons are completely invalid, but are calculated to make the case that speculative investors are raising land prices.

All land put up for sale is bought by someone in increasingly intense competition with other buyers, especially adjoining large-scale farmers seeking to expand. This so-called study does not even come close to establishing a connection between non-farmer ownership and prices, but it ends with the statement that "sound" policy making is needed to ensure that land is available for the next generation of farming families. "Sound" policy to the delusional left is any that tries to short-circuit market forces for the benefit of those whom natural market realities disadvantage.

Of course investor ownership of land vexes many people who are not minor liberal academics. A farmer who has been out-bid by an investor cannot help being resentful. Astronomical prices paid by outsiders (and how naive they are) are the topics of many conversations, often spiced with rumors that multiply with each re-telling.

Working farmers and big-shot corporate investors are hardly the only categories of landowner. Over 25% of land being farmed in Saskatchewan, or about 14 million acres, is rented from others, excluding crown land. Virtually all is owned by retired farmers, descendants of farming families, estates of deceased farmers, aboriginal bands or small-scale casual investors. It is 18 times the 1.4% owned by large investors.

Except for land that is held in perpetual family trusts or similar structures, all will eventually come up for sale. Additional land will be released to the market by currently active farmers as they retire. Over half of Saskatchewan farmers are 55 or older. All land that turns up on the open market will go, as it always has, to buyers who can pay most.

It takes the most profound ignorance to suppose that a significant percentage of "the next generation of farmers" will be in the market for land in the future and thereby affected by land prices. It must be 50 years since a young family, except with much help from the previous generation, had a hope of starting a farm from scratch, buying a viable amount of land and paying for it in a lifetime out of the profits of its production. For practical purposes all the farmers who will be farming in 25 years are already farming, even some unborn and others too young to know it yet. The only path to a successful farming career from here on out is inheritance. The top tier of the farming population is becoming or already is an affluent landowner class, one that is especially resented by the left, to whom 'social justice' means dragging such people down.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

Even if the United States had a normal president and a typical Congress, even if the revisiting of NAFTA was only for the innocent purpose of updating to align it with changes in the North American economies since 1988, and even if the historic goodwill towards Canada that historically existed in American centres of power and influence were still there, and even if the NAFTA agreement were not mixed up with explosive US-Mexico issues such as immigration and the wall, any Canadian government would have a challenge on its hands.

When the agreement was originally concluded the political atmosphere in Washington was infinitely calmer and more civil. Members of opposing parties actually got along and formed lifelong friendships. The notion of an agreement so closely integrating the continental economies was not widely popular in principle and many lawmakers, in all three countries, could never be made to understand that benefits would accrue to everyone, but many more understood it than do today. NAFTA was the first trade agreement to be negotiated by a US administration under the fast-track condition in which the Senate could not change the terms. It was negotiated by the Reagan administration, approved in Congress in a Bush administration and put into effect by the Clinton administration. The ratification vote in the Senate was 61-38 with 27 Democrats in favor and many Republicans opposed or abstaining. The House vote was 234 to 200 with 102 Democrats in favor.

In Canada it was a Mulroney-Conservative enterprise, but by the time it was ready for adoption a Chretien-Liberal government had been elected after contesting two elections with the most rabid anti-free-trade platform this side of the NDP. The 1993 election was undoubtedly influenced by union and other left-wing opposition to NAFTA, although the election of the hapless Kim Campbell as Conservative leader and hysterical anti-Conservative sentiment fomented by the leftist press pre-ordained the result. Chretien was Canada's Trump of those times, promising during two campaigns to tear up or renegotiate. But reason won out and in the end there was enough forbearance in Congress to humor Chretien with two meaningless but face-saving add-ons.

Little if any of this applies today. Protectionism had taken firm root with the American public and Congress long before Trump, who simply capitalized on it. Had Trump not unilaterally withdrawn from the Trans Pacific Partnership and submitted it for Congressional ratification it is extremely doubtful that it would have survived even with same-party majorities in both houses. Some Republicans in Congress more strongly oppose free trade than some Democrats, but very few Democrats with pro-trade leanings would have voted for any Trump bill, even though the TPP was the work of the Obama administration, one of its few useful works.

Against this backdrop the Trump administration will have to present an extremely aggressively-revised NAFTA to have any hope of being taken seriously. This reality added to the fanatic anti-trade ideas that are current in the Trump administration means that US negotiators will give no quarter. Under US law that applies to all trade agreements the president can unilaterally, without seeking Congressional assent, take the US out of any agreement on six months' notice. That is, pardon the pun, Trump's trump card. The threat of wiping out NAFTA altogether will be constant. Then there is the very high probability that Mexico will opt out of NAFTA long before Trump has a chance to kill it.

The parts of NAFTA that involve agriculture are not trilateral: there are different agreements between each pair of signatories. The Canada-U.S. agreement allowed supply management in Canada to survive. There is less than a zero chance that it will happen again, and one of the reasons is that Canada has already made concessions in the TPP and Canada-EU agreements. The door has been opened a crack, but US negotiators will accept nothing short of swinging it wide open. There is nothing that Canada can offer to stave this off and nothing it can do will silence the powerful American milk lobby. It can by no means be assumed that this will be the only US demand in agriculture.

Every export-oriented sector of the Canadian economy, which means most of them, is at risk. Softwood lumber trade is not part of the old NAFTA but is sure to be part of the new and not on generous terms.

This may be where Trudeau and his government, already in over their heads in the routine running of the country, end up completely under water. If not now it is bound to happen at some other time in another manner. But with NAFTA there will be either a very bad agreement or no agreement. Either way Trudeau will own it.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

In ten years, at most, mainline farm machines such as tractor-tillage and tractor-seeder combinations, self-propelled sprayers, swathers and combines will be driverless. Gone will be soundproof cabs, air conditioning, leather seats, stereo radios and coffee-cup holders. There will be just enough provision for human operator control for maneuvers that are not practical by GPS. Tractors especially will look entirely different, but most importantly they will operate in completely different ways.

In much less than ten years, perhaps as little as five years, driverless taxis and highway trucks will be common sights and accepted on streets and roads. It was not much more than five years ago that the notion was first taken seriously that cameras, sensors and servo motors could duplicate the functions of a human vehicle driver, more accurately and reliably. Another big leap is the concept that computer-controlled vehicles are safer even in the most difficult traffic and environmental conditions than person-drivers. But it has been accepted in unexpected places. Several jurisdictions in North America and Europe already do or soon will allow self-driving cars on public roads and streets without restriction; consider that these decisions are made by elected politicians who are often technologically illiterate.

Last week Intel, the company that originated the computer chips that made the personal computer possible, paid $15 billion for the Israeli company Mobileye, which has developed hardware components and software for driverless vehicles. The price was 12 times sales and 60 times earnings. It was an indication of the economic dimensions of this field. Mobileye and other companies are creating autonomous-control systems with modular components that can be adapted to any vehicle or machine. It is unnecessary, even undesirable, that each equipment manufacturer should try to create a unique control system.

Compared to a self-driving car in New York or Toronto rush-hour traffic, a self-driving tractor in a square-mile field is a snap. There is no risk of collision. There might be some chance of bogging down in wet parts of a field but it is not a stretch to develop sensors with a better ability to avoid getting stuck than a human operator. GPS accuracy has improved from 30 feet to one metre to as little as 6 inches. Accuracy of sensors is in small fractions of an inch. Fields are easily mapped and the information stored. Many already are. The history of all previous field operations can be recorded and stored, as also already happens with precision farming. Field work can be done when conditions are most suitable, with no issues of labor skill or competence, fatigue, illness or family emergency. It is immaterial to an automated machine whether it is day or night. The ability to work in the dark as easily as at high noon is especially valuable for operations such as spraying because nights tend to be calm when days are windy.

Autonomous control can be combined with a drone that can visually monitor any number of driverless machines over any space. Cameras on the machine can give a remote operator the same visual view as a driver in a cab has. A machine can self-monitor with high accuracy to identify a potential breakdown before it happens, to determine when attention is needed and to park itself in the most efficient spot to do it.

With the labor problem eliminated, the need to make machines as large as possible to use labor most efficiently is lessened. A number of smaller, more versatile machines can be used in place of one giant unit.

No or hardly any fully autonomous farm machines are available so far because manufacturers want to get it right before putting products on the market. There is no consensus on design or management of self-driving equipment. Sophisticated programming is required to make such systems work and the programming process has to be within the ability of an average computer user. It has to be foolproof because a programming error can have disastrous consequences with, among other things, liability issues for manufacturers.

Automation is the biggest advance in the history of farm mechanization. In 20 years, when the concept is commonplace, there will still be thousands of conventional human-operated machines in good working order and in service. Their market value should not collapse because the point will never be reached when substantially all equipment of all farmers is driverless. Automation is a situation for early adopters. All technology goes through successive, consecutive stages in which knowledge and experience are accumulated and combined with newer technology and continuous innovation. It will be quite a thing to see this evolution unfold.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

The range of possibilities in the coming renegotiation of the NAFTA agreement is very wide. 'Tweak' could mean to the Trump administration what it means to normal people, or it could be a figure of legendarily imprecise speech. Canada could be in the bag with Mexico or it could be a bystander while Trump burns out his hatred for that unhappy country. Either it was not offered or foreign affairs minister Freeland did not heed advice to shut up and wait for the waters to clear. Instead, as if she were running the show, she said last week that all three NAFTA members will be at the table when the process begins. Who will be at the table depends on Trump. It is perhaps not as it should be but it is the way it is. The responsibility of Canadian politicians and negotiators is to preserve as many as possible of the benefits of NAFTA. Not Canada and not Mexico are in a position to make new demands. Canada can do very little to defend Mexico or to make a common front against the US without compromising its own interests. If you come across a 750-lb bear in the forest you don't try to overpower it. You keep low until it goes away. There is no evidence or reason to believe that in the Trudeau government there is the pragmatism, intelligence and experience needed to get through this without getting mauled.

The supply management community has been deafeningly silent about the ominous and unique hazards it faces and it certainly is not because it has not noticed them. Chickens and eggs are irrelevant. But the dairy supply management system is face to face with extinction, it knows it and it is terrified of this government's incompetence.

When the original Canada-US free trade agreement was negotiated exceptions for supply management were accepted by the American side because the core principle of producing only for the domestic market precluded Canadian exports of dairy products to the US. The American milk lobby readily traded the shut-out from a tiny market in Canada for perpetual relief from import competition.

That was 29 years ago. Two things changed. One, the gap between Canadian and American dairy prices steadily widened because supply management shielded Canadian dairy farmers from competition and from the need to control costs and steadily improve efficiency. Milk prices in Canada are such that they accommodate the enormous capital cost burden occasioned by marketing board quota, without which it is illegal to milk cows in Canada. In practical terms the cost of a cow plus its quota in Canada is two cows in New York state. Prices to producers are set making full use of a monopoly environment. American dairy farmer and processor organizations now realize they can clean the clocks of Canadian processors if allowed to sell there. The Canadian market for foods is approximately a tenth of the US market but even a tenth of the Canadian market is now significant. If the opportunity to export to Canada was not too interesting 10 or 20 years ago it certainly is now. Dairy production and prices outside of Canada gyrated wildly over the last few years for various unconnected reasons, growing the appeal of untapped export markets.

The other is the strange case of ultrafiltered milk. It is a misleading term to describe a concentrate that includes milk solids and proteins without the butterfat or bulk. The process to extract these components was invented after the NAFTA agreement and ultrafiltered (also called diafiltered) milk is not subject to the prohibitive duties that keep out all other dairy imports. Ultrafiltered milk can substitute for whole milk in cheese, ice cream, yogurt and other processed dairy products. It is substantially cheaper than milk supplied by the Canadian marketing boards. Imports have passed $200 million a year.

Ultrafiltered milk is the first loophole to ever appear in the lead-pipe prohibition of dairy imports. The marketing boards first attempted to obtain a government regulation requiring that cheese could only be made in Canada from Canadian whole milk. When that failed, the marketing boards, with the cooperation of certain processors, devised a plan under which farmers could produce milk under special additional quotas for the ultrafiltered trade at prices that allow Canadian processors to compete with imports, in other words much lower world prices. Farmers quickly oversubscribed the opportunity.

Free trade agreements do not prohibit domestic actions that displace imports. But the US dairy lobby considers the marketing board strategy an unfair obstruction to trade. The case is weak but opening of the NAFTA agreement greatly reduces the burdens of logic.

The entire American dairy industry is now aligned to end the barriers to exports that Canadian supply management has maintained for half a century. Under the parameters for 'fair' trade that Trump propounds supply management does not have a leg to stand on. Skillful negotiation might trade off something else to keep it, as the government probably would wish, but it does not have a big pile of bargaining chips. At the moment the whole thing turns on whether the US dairy lobby can persuade the Trump administration to make a make-or-break issue out of it. Realistically, for this pressure group, falling off a log would be harder.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

For any user of petroleum energy, including farmers, agribusiness, the grain trade, consumers, there is no obvious upside to higher oil prices. A proper farm buys 100,000 litres of diesel fuel a year; 5 cents a litre is Disneyland with the grandkids in March. Higher fuel costs mean, after a one-year time lag, higher rail freight rates for grain. The higher the oil price the stronger the Canadian dollar, and a stronger dollar means weaker agricultural prices. Higher crude oil prices may lead to higher natural gas costs, which could raise fertilizer prices. If the western oil industry shrinks because prices are too low for it to stay in business, it might have useful effects on the labor shortage.

But you can't have a thriving agricultural economy within a general national or even regional economy that is on the ropes. Oil and gas is the underpinning of western Canadian prosperity. Energy prices have always fluctuated, just like agricultural prices, but it is one thing for prices to cycle because of natural economic forces and quite another thing for prices to collapse because of an economic jihad attack by Saudi Arabia. Western Canada has been hit harder by the aggression of the Saudis than almost any other oil-producing area in the world with the possible exception of Venezuela. (Before its admittedly already dysfunctional economy collapsed because of disastrous oil prices, Venezuela was a major, dependable importer of Canadian wheat).

In 2013 the Saudi princes decided that they could flood the world market with their oil, take the bottom out of the global market and ruin their competitors. The real-life equivalent of this would have been dropping small atomic bombs on Calgary, Houston and Bismarck. The princes were dumb enough to imagine that as oil prices fell below the cost of production other countries would just stop pumping, ceding their share of the market to them, whereupon they could restore prices to the ranges needed to sustain their offensively lavish lifestyles. Everyone but the princes could see how this would turn out. Other oil producers would reduce their costs, especially costs associated with future exploration to maintain their reserves. To the extent that they could not break even they would lose money until the inevitable result: that the Saudis themselves would cry uncle after suffering losses that even they could not afford. It turned out to be the equivalent of an economic suicide bombing.

Saudi Arabia receives 70% of public revenue from oil exports. Between early 2014 and late 2016 it burned through $229 billion of its foreign exchange reserves to replace reduced oil revenue. It started 2014 with $732 billion. Even if oil prices snap back to $60 or $65 it may have to spend another $100 billion before revenues and expenditures recover. Saudi Arabia cannot increase its reserves unless the benchmark price of world oil is above $60. Bringing that price up from $45 to $60 will be much harder than crashing it from $110 to $40.

In the two years of the Saudi-initiated oil price war, oil-related new investment made or planned worldwide dropped by $745 billion. In 2015 alone OPEC exporters lost $365 billion in revenue while shipping more oil; over two years 2015-16 the loss will be near $725 billion. The number of drilling rigs active around the world dropped by 55% as of last month to 1,600 from 3,700 in October 2014. Investment in Canadian oil and gas exploration and development that had already been committed fell by $50 billion and oil-patch employment has been reduced by at least 40,000 so far. There is no way to quantify the loss of investment that did not come into western Canada because of the Saudi oil war and the coincident, unfortunate accident of the election that gave Alberta a corrosive, incompetent NDP government.

So the inevitable breaking point arrived. The meeting on November 30 of OPEC oil ministers went better than expected, with an agreement to reduce the nominal ceiling on its production by 1.2 million barrels a day to 32.5 million, effective January 1 for six months. Russia, not a member, also agreed to reduce its output by 300,000 barrels from the current 10 million a day. Indonesia dropped out of OPEC rather than comply. Saudi Arabia agreed to cut 485,000 from its daily output of 10 million. Crude oil prices immediately jumped. By December 1 the US benchmark price rose 12% to $51.70 a barrel, the highest since July 2015.

In all times and places there is no substitute for free markets. Various forces can frustrate their operation and everyone accepts that. But the Saudis are not on our side. Why are we so nice to them? What they have done in world oil is peculiarly little acknowledged while being so utterly unacceptable. The western Canadian wealth the Saudis have destroyed, the employment they have eliminated, the investment they have driven off, the financial losses they have caused to large and small western Canadian businesses are beyond calculation. We need a healthy resource industry in western Canada, and it has just been set back by years.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

In a properly ordered world people who use cars and trucks would pay the cost of building and maintaining the roads they depreciate. Those who use subways and public transit would pay for those costs. People who drink water would pay for the facilities that pump, filter and deliver it. People who use bathrooms would pay for the sewers and treatment plants that accommodate them, and only those, in proportion to their contribution. People who fly in jet planes would pay for airports and air traffic control. People who beget children would not hand them over to the state to be raised, but would raise them themselves at their expense as their parents raised them. And so on and so on.

That is not the world according to Trudeau The (really) Younger. In the scheme of things presented in last week's tragicomic economic statement, taxpayers in Vanguard will chip in for subways in Vancouver. Taxpayers in Outlook will contribute to a light rail line in Ottawa. It is not contemplated that the residents of Vanguard should get anything from the taxpayers of Vancouver. How many voters are there in Vanguard? The government will suck $25 billion out of the rest of Canada to assist public transit in six largest cities, which should be paying their own way, and which could do so if the layers of government above them would stop bottle-feeding them in search of their votes.

In all, this government plans to redistribute $180 billion over the next decade in ways that it unilaterally selects in places it picks. This is the infrastructure plan, the one that is supposed to kick-start the economy and create untold thousands of 'Middle Class' jobs.

The government has figured out that employment is created only when and to the extent that there is a requirement for the fruits of labor. Notwithstanding anything it said a year ago in the election campaign the Liberal government does not really expect economic growth rates or prosperity gains sufficient to create market demand for goods and services needed to reach reasonable employment and unemployment rates. So it intends to create artificial demand from public works. This is a staggering economic and social engineering experiment. Public projects are heavy construction which employs few people with particular skills, of which there is already a shortage, and many big yellow machines. The selection of projects to be supported will be political and subject to no economic tests or disciplines.

It will be paid for by borrowed money. The Trudeau government considers fiscal prudence to be, well, prudish. It is quaint, outdated and not cool. Balanced budgets are so 1990. Wait until this grand plan kicks in. Incomes will soar and so will tax collections from the hugely enlarged Middle Class. Everyone will be above average. The (at least) $130 billion that will be deliberately added to the federal debt over the next decade will be as small change. Deficit financing is the future, the smart new invention. This is the way of youth, optimism, confidence, innovation, enthusiasm. The government *can so* borrow its way out of economic stagnation.

What an ugly irony that the last federal political leader to recognize that government must live within its means was the otherwise revolting NDP Mulcair.

Of 86 pages in the economic paper 50 are crude, unalloyed Liberal party propaganda complete with intelligence-insulting made-up Josh-and-Josee vignettes. The parts about the Canadian Infrastructure Bank and foreign investment should have been presented in the format of a comic book. The idea of the CIB is only weeks old but already it is a fact. It is without history, example or precedent, but the finance minister Morneau, by far the most disappointing character of this head-in-the-clouds cast, already knows that institutions have been impatiently waiting for just this chance to pour billions of shareholders' and clients' assets into an untried, ephemeral, politician-directed pretend bank. Trudeau I did everything but build a wall to keep foreign investment and ownership out. To Trudeau II foreign investment is a necessity and a cute web site and a few salesmen will get all we need. In a zero-return world the custodians of international capital are looking under every rock for opportunities. They are not finding them in a Canada obsessed with carbon, run by social workers and incapable of keeping a few punks, kooks and geeks from blocking world-class wealth-creating projects such as pipelines. This is not where private money wants to be.

This scheme is irresponsible, immoral, reckless, inevitably disastrous. Unfortunately the voting public cannot be counted on for the perception and cognitive capacity to see through this. Trudeau II is already most of the way to his second term and maybe a third. Little of the public will connect the dots of the coming catastrophe to its source. The prettified prince will rule until familiarity breeds contempt.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

The term 'commission' as part of the name of an entity invokes official standing and function. Universally it means a creature of some level of government with regulatory, policy-designing, decision-making, conflict-resolving, dispute-settling or appellate functions, whose members are selected and appointed by a legitimate public authority.

Don't try to use 'ecofiscal' at Scrabble. It is not a word, but an invention of the folks behind Canada's Ecofiscal Commission, a murky outfit formed in 2014 by self-appointed 'commissioners' who have appropriated 'commission' something like, for instance, Trump University uses 'university'. The 'commissioners' are academics, including retirees, with the self-assigned vision of "a thriving economy underpinned by clean air, land, and water." To pump up its profile, a dozen or so familiar public figures, some of them politicians of yore such as Paul Martin, Bob Rae and Mike Harcourt, have been persuaded to allow the use of their names and headshots as 'advisors'. The so-called commission does not solicit or accept donations, which instantly differentiates it from every other non-profit organization. Apparently it is financed by certain little-known private foundations, though an annual report for 2015 offers no financial information.

If the Ecofiscal Commission sounds like a carbon tax front it's because it is. It is a lobby and pressure group on the same side with Greenpeace and David Suzuki. Since its formation it has published several reports which have more of the look, feel and smell of time-share brochures than serious economic exploration. All urge arbitrary, top-down public policy to penalize or reward activity with the aim, according to standard dogma, of reducing pollution and slowing climate change. In other words, carbon taxation.

Little of this stuff came to general attention until last week, when a 74-page report was released contending that biofuels (ethanol and biodiesel) are ineffective and inefficient ways to reduce greenhouse gas emissions. It advises that all forms of government support, including subsidies and mandatory blend regulations, be abolished. The report somehow caught on. Since Canadian newspapers, TV and radio stations and web sites spend their time copying from each other, it got brief but very wide coverage. It was not objective or balanced coverage, but capsulized the most headline-worthy talking points to leave the average reader with the strong conclusion that biofuels are irredeemably bad, on the authority of this big-shot commission.

The 'study' claims that current ethanol policies of the federal and provincial governments cost consumers $640 million a year, for a three-year total (2012-15) of a staggering $1.3 billion. Biodiesel policies cost another $500 million. For that Canada's greenhouse gas emissions were reduced by a paltry 3 million tonnes a year. The cost per tonne of carbon dioxide not emitted was calculated at $180 for ethanol and $128 for biodiesel. The estimates are based on the so-called full life cycle, which includes everything that biofuel critics could think of to minimize benefits and maximize attributable costs. Some even include the energy used to make the farm equipment that grows the crops that make the ethanol.

Every measure of environmental pollution is an assumption that can be proven only by using other assumptions. The range of methodology is nearly infinite. The promoter of a pre-conceived point of view can pick from a long menu of items that can be assembled in any combination like Leggo blocks to purport to support any conclusion. This report has it all, but just one example is the figure of $640 million as a consumer burden of ethanol. It works out to a cost over and above gasoline of $2.25 per litre, a figure so ridiculously impossible as to discredit the whole thing. Ethanol is currently more expensive than gasoline but only because crude oil is temporarily half-priced.

An ethanol industry has not developed in Canada outside of Ontario, where corn is available and economics match those of the US midwest. About 40% of ethanol used in this country is imported from the US. In the US corn use for ethanol is and has been for two decades 35% of production. World agricultural prices are derived from American prices. If not for the consumption of corn for renewable fuel, two things would have happened: agricultural prices would have gone into permanent, catastrophic collapse around 1995 and the agricultural capacity of North America would have been reduced by 10 to 15%. Government supports of farm income and farm subsidies would have dwarfed those of the 1980s. While there are massive grain surpluses at the moment, the cropping system would not be large or productive enough to meet future needs or able to compensate for sudden crop failures. Renewable energy from crops is a godsend to the food security of the world. Even if its contribution to cleaner air were zero it would be sound and good policy to substitute infinitely replaceable energy for exhaustible fossil energy. Renewable fuels are a boon to agriculture. Carbon pricing is a bane that will penalize farmers and food production in unique ways to the detriment of the whole economy.

The renewable fuel sector is at a crossroads. It is under steadily more vicious attack in the US in this time of oil surpluses, particularly from Big Oil to whom the next US president and Congress may be more beholden. In Canada most government support programs expire on or before March 31 2018 and there is no talk of extension.

The world does not need more pompous, theorizing biofuel attackers. It needs more energetic, common-sense biofuel defenders.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

A year ago, in an election campaign TV commercial that was regarded as clever in those circles, the now prime minister said "In my plan, we will kick-start the economy by investing in jobs and growth and lowering taxes for our middle class." Today, nearly a quarter through his term, the glamor prime minister is kicking it in the teeth, at least that part of it west of West Hawk Lake.

There are scarcely words to describe what is going on with pipeline projects and what this government is allowing to happen. Oil prices in Alberta would have increased since 2015 if pipelines first proposed up to a decade ago had been allowed to be built. It is bad enough that world oil prices have tanked as the Saudi Arabian and some of its Middle East cohorts do an economic jihad against the oil industries of the rest of the world. Meanwhile crude oil in Alberta is bottled up in Alberta because there is not enough capacity to move it out to markets and clean the Saudis' clock in North America.

There has been an American education president, a war-on-poverty president and a war-on-drugs president. Today they have a useless president. The act of blocking the XL pipeline into the US was a single-handed act of economic aggression which the Harper government did not have time to answer, but which the Trudeau government, for all intents and purposes, accepts and applauds. Imagine that Russia invades a part of the Canadian arctic and the prime minister travels to a gala ball put on by the occupying commander.

The events surrounding the Energy East pipeline would be the last straw if one could be confident that still worse is not ahead. When a few geeks and kooks who have no legitimate standing can derail, frustrate and tie up a regulatory process that is already systemically designed to make progress and economic development as close as possible to impossible, it is an abdication of a principal responsibility of a national government. There is no rational pretext on which this project should be delayed. There is no case for importing Saudi Arabian oil into eastern Canada while there is a surplus of domestic oil and a ready means to transport it from a world-class Canadian energy-producing region. Energy East consists of converting an existing gas pipeline to carry oil. The gas pipeline is available because a large part of the eastern Canadian market for natural gas is being supplied by frack gas from Pennsylvania and New York State. This gas flows freely into Canada while Canadian oil into the US is denied. (Fracking is on thin ice if the US election ends up where it is heading, but that's another story).

There are proposed pipeline projects in Canada stalled by self-destructive regulatory processes and political policy that if allowed to proceed would ignite an instantaneous economic, development and construction boom. There would be billions in new capital investment and such a torrent of job creation as to cause labor shortages. All that is required is a competent, responsible government in Ottawa. It does not even require a competent, responsible government in Edmonton.

No responsible government would allow such projects to be kidnapped and held for ransom by the native lobby. The law, contained in unclear statutes and treaties of 150 years ago interpreted by a Supreme Court that takes the first word of its name literally, requires that native leaders must be consulted about development that takes place on their reservation land. Consultation means different things to different people. To the native lobby it means the power to allow or disallow development, overruling at will the authority of the elected national government. We all know how far a non-aboriginal BC rancher or any private landowner would get with such tactics.

Only a small and manageable fraction of opposition to pipelines is based on the matter of pipeline safety. Most of it is actually opposition to petroleum extraction and a full frontal attack on oil and gas exploration and production. This faction has already succeeded to stunning extent, aided by the world oil surplus. The petroleum sector of the west is shrinking, starving for capital, shedding valuable employees and losing its capacity to even maintain output through replacement exploration and new oilsands facilities.

The three agents of the apocalypse are Trudeau, Notley and Wynne. Nothing can be done in the immediate term. Regime change is needed. In Alberta the non-socialist parties must unite into a common front to purge the NDP forever. The national Conservative leadership process had better get its act together to present a viable leader before we end up with a Canadian edition of the Donald Trump Flying Circus.

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BACKGROUNDER / *Morris W. Dorosh*

Say that you have come to the store to buy some sugar. Only you know what amount you need. If you have been buying 10-kg bags regularly but today you only want five kg, it is not open to the storekeeper to question or challenge your decision. You might explain yourself out of civility but you are under no obligation to do so, nor to continue to buy the accustomed amounts in the future, nor to continue to patronize the same store.

That is the part of the canola dockage dispute with China that the Trudeau government does not understand. Last week, during a state visit by the prime minister and his usual Sardar-worthy entourage, the Chinese agreed to defer application of the tightened dockage regulation without setting a new date. The can was merely kicked out of the way so as not to mar the festivities.

The Chinese government, learning from the ample failures of central planning, does not micro-manage companies or industries. Its economic miracle derived from allowing state and private enterprises to make business decisions based on economic outcomes. A mechanism such as a quota on foodstuff imports would interfere with this principle and violate international trade agreements. The Chinese government's zeal for commodity supply security and the need to support prices for hundreds of millions of subsistence farmers led some years ago to a scheme of government reserves of staple food commodities. Reserves, among others, contain almost half of the entire world wheat carryover plus huge amounts of corn, soybeans and vegetable oils. Economic stress has forced a crash program to shrink these reserves. Excess stocks are being auctioned to end users, but auction prices are often higher than conventional sources.

Canola oil in the reserve was purchased from processors to maintain their crush margins as well as for supply security. For some time Chinese oilseed crushers have been able to extract oil more cheaply from imported seed and are not aggressive auction bidders. So Chinese authorities concocted the blackleg disease chimera to slow canola imports and force vegetable oil end users to draw from the government overstock.

The Chinese scheme is crude. Its government contends that the fungal disease blackleg can be introduced into its own crops in canola dockage (bits of stems, trash, debris and foreign matter). Dockage is present in all commercial grain. The international and Canadian standard for canola is 2.5%, which is incorporated in the Canadian statutory grading system. The Chinese lowered it to 1%. If a risk is posed by 2.5% it is also posed by 1%, but the biggest flaw in this position is that the only way that clean Chinese fields can be infected is if uncleaned Canadian canola meant for processing is used as seed for planting. Most Canadian canola is genetically modified, and while GMO varieties are accepted for processing they are not allowed to be grown in China. GMO seed technology is also protected by international intellectual property rights conventions.

If it really wanted to stop all imports, China would impose a zero tolerance for blackleg spores. The controversy actually started in 2009 when exactly that was done. Canadian canola exports initially dropped sharply, but soon normalized as the restriction accomplished its purpose and was quietly eased. Contrary to what is contended, Canada is at no risk whatsoever of losing a $2-billion canola market in China. It is facing a temporary slowdown in demand. China is self-sufficient in most basic crops and is a large producer of oilseeds but its geography and climate prevent it from meeting all of its needs. China is the biggest importer of soybeans as well as canola; this year it will absorb 24% of total world soybean production. It is also a large buyer of palm oil. It cannot get on without external supplies. No other exporter has the supply to displace Canadian canola in China. Whatever China does not take will readily find other buyers.

Canola seed is delivered by Canadian growers to buyers with dockage content ranging from around 1.5% to above 4%. All seed is cleaned or blended to meet the current 2.5% limit. The Chinese market can be served within a 1% dockage specification by reserving the cleanest seed for China or through additional cleaning. Some Canadian grain companies are already doing so.

Most of the extensive accounts in the general media are laughably inaccurate and distorted, as if there were a political and economic crisis. Understandably, the Chinese did not expect that the Canadian government would assign this incident such a high political profile. But the Trudeau government thought it saw a chance to show that it is no pansy in trade matters and also that it really is sensitive to issues important to western agriculture. Like weak, inexperienced administrations everywhere, it does not know how to pick its playing fields. It has needlessly created friction and uncertainty at home and in China that may impair future trade dealings and canola sales. Its top ministers, for all their fancy degrees and academic qualifications, cannot tell good advice from bad advice.

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Extended 10-year outlooks for the world agricultural economy are regularly prepared by several credible agencies, attempting to project crop and meat production, supply, demand, prices and trade using broad economic statistics and indicators such as population trends and economic growth to estimate demand and trend-line conditions in agricultural production. No 10-year forecast will ever be highly accurate (and therefore reliable) because of the numerous unforeseeable events than can upset these theoretical calculations. However they are worth noting by anyone who plans to stay in agriculture or agribusiness for more than a short time.

For several years now such forecasts (including from the US agriculture department) have drawn attention to the persistent decline in the rate of world population growth (especially in developed and developing countries) and the capacity of world agriculture to increase output even under handicaps assumed to be just ahead from global warming. The idea that the world faces unmanageable or difficult-to-manage challenges in providing enough food for a ballooning population is pretty much obsolete. The global population is no longer ballooning and agricultural productivity is rising, primarily due to advancing technology which increases output while reducing resource use.

Right in line is the latest joint annual 10-year World Agricultural Outlook report from the United Nations FAO and the OECD. It says flat out that higher farm productivity and increasing planted area will easily meet increases in global food demand over the decade. Yield improvements will account for about 80% of the increase in crop production. The result will be stable prices at close to historic levels.

The main interest of the FAO-OECD is malnutrition in the poor parts of the world, not agricultural prosperity, so they welcome low and stable prices. Profitable and stable prices for growers are not their concern. If agricultural productivity expands at the current trend rate and even with no major public policy action to reduce world hunger, the number of undernourished people will drop from about 800 million now to 650 million by 2025. However hunger will not be eliminated by 2030, the UN's target, unless more aggressive action is taken.

The report authors consider the decline in prices for the main crops, livestock and fish products since 2015 as marking the end of an era of strong food and commodity markets. World crop prices fell further from 2012 peaks, meat prices fell from records set in 2014 and dairy product prices continued declines that began in 2013. Price declines were due to high production and several years of supply accumulation, weakening demand partly due to a general world economic slowdown and lower oil prices which reduced production and transportation costs.

Going forward, crop production is projected to increase at about 1.5% a year globally, but by upwards of 2% a year in certain regions where potential to improve productivity is higher or where it starts from a lower baseline.

It predicts that crop prices after inflation adjustment will be relatively flat over the 2016-2025 period. However livestock prices will rise relative to crops with strong growth in meat demand from emerging economies. Demand for coarse grains and protein meals will rise faster than for food grains as consumption of animal feed increases. Coarse grain prices will be more likely to rise than those of wheat and rice.

Global meat production is projected to be 16% higher in 2025 than currently, compared to an increase of 20% in the previous decade. Although developed countries will still account for half of global meat exports by 2025, their share will decrease. The exception is Brazil, which will contribute about half of the expected increase in global meat exports.

World food and agricultural trade is expected to grow by 1.8% annually over the next 10 years, a sharp drop from 4.3% annually over the past decade. Consumer food prices are expected to be less volatile than prices received by primary producers, for reasons not well explained. The outlook said most agricultural exports will continue to originate from only a few countries able to produce large surpluses to their internal needs. China will remain a dominant import market for certain commodities, notably soybeans because its own agricultural resources are not suited to their production. Properly functioning international markets will be essential in enabling food flows from surplus to deficit regions. Government policy should encourage increased agricultural productivity in sustainable ways.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

For five days the Vancouver-based Earls restaurant chain haughtily defended a decision to switch to 'certified humane' beef from Creekstone Farms in Kansas for the beef for its 66 just-above-fast-food Canadian restaurants. On the sixth day it changed its mind as the uproar over eschewing Alberta beef swamped the kudos from the eco-freaks and food-fearers. It will continue to use Canadian and American beef, neither exclusively, as it has always done. Its president said the company "made a mistake", however he did not say that it was one of the stupidest marketing blunders to date in the industry-wide drive to profit from and exploit public ignorance and superstition about food safety and food production.

Earls completely misjudged the public's perception of the issues. The chain uses 900,000 kg of beef a year, which is .09% of Canadian beef consumption. It thought its customers would find the opportunity to eat humanely-raised, hormone-free beef a few times a year while consuming conventional beef the rest of the time so appealing as to create a competitive advantage. Instead, customers and others flooded the social media and newspapers with outrage that a Canadian restaurant company would make the decision to avoid Canadian beef.

Now the company will "work with local ranchers" (how local? Around Vancouver?) to build a supply of 'acceptable' beef. Of course the beef it has always obtained in Canada has always been totally acceptable. It will return to its previous sourcing practices. It does not have the market share, demand or profit margin to have meat custom-produced to its specifications. It was not its customers who raised a cry for Kansas beef.

It never did tell customers much about Creekstone Farms. It is not a farm but a giant slaughterhouse owned by Sun Capital Partners of Boca Raton Florida, a private equity firm that does buyouts, flips and other financial adventures. Creekstone processes so-called humane, conventional and halal beef at the same location. In halal slaughter for the Muslim trade, cattle are hoisted on the rail while still alive, have their throats slit and slowly bleed to death. Talk about animal cruelty.

To quote from its web site: *"At Creekstone Farms we process only the finest Premium Black Angus Beef, all born and bred in the USA. Not Mexico or Canada.."* Also that "*Creekstone's beef program is one of the few that has been certified by the USDA."* USDA certification is available to anyone and simply confirms that a processor follows ISO HACCP (Hazard Analysis and Critical Control Point) practices. At least 148 companies including all large meat processors are so certified.

The 'Certified Humane' designation is conferred by an allegedly non-profit organization called Humane Farm Animal Care, one of many that certify farms as being run according to organic and other standards. If it is a non-profit it is run according to the purest profit principles. It charges its inspectors out at $600 a day and gets a cut of every gallon of milk, pound of meat and dozen eggs that its 'certified' clients sell.

'Certified Humane' beef is supposed to be raised without the use of antibiotics, hormones or steroids and therefore has no residues of these substances. All Canadian beef (and all American beef however raised) is just as antibiotic-free, hormone-free and steroid-free and always has been. Traces of hormones produced naturally in the body of the animal are the same whether or not they have been supplemented. Pre-slaughter withdrawal periods apply. Tolerances for residues are set at a tiny fraction of levels that could possibly have any effect on persons consuming it. Beef is constantly monitored for residues and meat in which any are found is not allowed to enter the human food supply. Ironically, compared to chickens in cages and sows in crates, cattle are treated altogether humanely in all production situations. Cattle being raised on grass until they are placed in feedlots for the final 120 days of their growth period are free to roam and graze at will as if in the wild.

This is all a monumental scam into which the Earls chain was sucked because it thought enough of its customers have been scammed. Of course there is a customer-is-always-right component. If a demand develops for something, no matter how irrational, free enterprise dictates that this need should be met. Catering to misinformed and misguided but well-heeled customers is a good and legitimate business. The customer who irrationally wants something because she has been brainwashed is still a customer. No amount of science, fact or logic will ever dissuade those of a certain persuasion that the food industry and 'industrial agriculture' are not out to poison them for fun and profit.

This is a fad and a niche, not the future of food and not an enlightenment or an awakening.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

Fluctuating agricultural prices either are or are not the untenable risk factor in farm land ownership. Looked at properly, it is evident that they are not.

After the amazing run-up in farm land values of the last decade, the current crop market downturn is the acid test of the long-term safety and durability of land as an asset and an investment. Canadian crop prices have stayed fairly level as the dollar depreciated almost exactly in step with the meltdown in world prices. The Canadian experience is not the American experience where farmers are taking the full brunt of cash-crop pain. US farm net income this year will be a quarter of its 2014 level. So how are their land values doing?

The US agriculture department issues an annual farm real estate value report with highly detailed estimates of actual per-acre figures. Its report for 2015 placed the national average at $3,020 per acre, up 2.4% from 2014. For crop land (as distinct from all land) the increase was 0.7%. The corn states, where land is the most productive, had the highest average at $6,350. Prices there showed a decline, but it was just 2.3%.

The backdrop is that these small movements occurred while crop prices sank alarmingly. It is more evidence that the link between crop prices and land prices has been grossly overstated, also the claim that there is a land price bubble. Otherwise farm real estate prices would have retreated along with crop prices. Some of the highest rates of price increase were seen after crop markets peaked in 2012. While grain prices fell, land prices continued to rise. Nor was there much of a connection between crop and land prices on the way up. Had there been, wheat prices would have had to rocket from $178 a tonne in 2007 to $548 today. It is actually about $245.

The farm land price boom began in 2007, coinciding with a historic jump in grain prices. Until then double-digit annual increases were rare; after that they were common. It would seem that crop and land prices are more closely connected but it is emphatically not so.

Interest rates collapsed at more or less the same time. The lowest borrowing costs in a lifetime and the corresponding shrinkage in interest income from passive investments made it easier than ever for farmers to finance land purchases and compelling for investors to look at land as an asset worth holding.

There would probably have been a quite similar surge in land prices even if interest rates had not moved lower. The farm land price boom is farmer-driven. The surge in crop prices between 2008 and 2012 only accelerated events and trends. The process of farm enlargement and consolidation that began at the end of the Second World War entered a new phase early in this century. Many farms reached a scale that took them out of the classic subsistence situation and into real business. Inherited land, which is most of it, cost current owners nothing. Adding to holdings at almost any price has a minor effect on total land cost, debt load and debt service obligations. Buying land is the only opportunity, uniquely appealing to successful farmers, to build bigger farm businesses. Technologically sophisticated, higher-capacity farm equipment has become available which exponentially increases the area that a small family, or even one man, can work.

There has not been a single year since 2007 in any agriculturally important Canadian province, according to accepted methodology, when land values fell. It last happened in 2001 in Saskatchewan, where prices dropped for three consecutive years by a cumulative 8.5%. It was a localized phenomenon because over the same period land values in Alberta rose by 14%. In the ensuing three years the Saskatchewan setback was made up.

Land has become the spectacular exception to the rule that the monetary return which an asset can produce imposes a ceiling on its value. If all the farm land in Canada had to be purchased at today's prices agriculture could not continue. But that is not how it is. The typical farm has a blend of low-cost and high-cost land and an average cost base that is a fraction of current prices. Most farmers who own most of their land would be financially better off by selling it and investing the money, and many are doing so. The buyers have century-long multi-generation horizons that perfectly fit the characteristics of land. They are farmers who have descendants who will carry on into the far future, or investors motivated by strong conceptions of tangible value.

Changes in farming and land ownership and farm asset trends of the last decade are permanent. An extremely wealthy rural landowner class is emerging in Canada because of the farm land value explosion. It is not that different from the evolutions seen in so many other places.

Land is eternal. Everything they say about it is true.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

Over the last decade annual cash receipts from the sale of Canadian crops increased by 120%. Receipts from farm-gate sales of cattle, calves and hogs gained 45%.

Before we get into the discussion, let's understand that the comparison is not necessarily an accurate depiction of relative growth rates. Cash income depends on prices as well as quantities sold, and prices fluctuate independently for crops and livestock. A full exploration of sector growth would involve physical quantities of production, adjustments for changing prices and inflation, capital and assets employed and several other issues which are outside the limitations of this space. But when the current-dollar value over 10 years of livestock production rises by less than half while crop value more than doubles, something is going on that is worth thinking about.

Comparing 2005 with 2015, the volume of the major crops produced in Canada increased from 69 million to 82 million tonnes, or just 19%. Higher prices were therefore responsible for most of the apparent growth in the crop economy. However livestock prices also increased, and cattle, calf and hog marketings last year were all lower than in 2005.

Both crop and livestock production are similarly land-based, and the availability of land is obviously an absolute limitation to the size of a crop or livestock industry. The amount of land cropped annually in Canada has increased since 2005 as the practice of idling substantial land in summerfallow in western Canada has faded. Add steadily higher average yield and the increase in physical production is fully explained. It also stands to reason that yield increases and higher prices are the only sources of future crop sector growth. Cattle raising also requires land, for grazing and haying while hog production needs it primarily for manure disposal. However only a small part of land that is unsuitable for crop growing is being used for cattle grazing. Even in southern Ontario there are large tracts of land that are underused or even unused for agriculture. Availability of land may be the limitation to crop production but it is certainly not capping livestock, especially cattle.

The value of land and its capacity to produce crops have become disconnected since 2005 with the phenomenal appreciation in land values. That would seem to favor livestock production, especially cattle, since grazing and pasture land is relatively cheap and available. The decline in cattle numbers in recent years shows that has not happened.

The last decade has seen the lowest borrowing costs in history and the easiest access to capital for viable businesses of all kinds. Crop land prices have become prohibitive for beginning farmers (and small operators wishing to expand) who do not inherit a farm estate, but land cost is less important in hog and cattle feedlot operations. The costs of building construction and livestock equipment have risen only at the rate of comparable non-agricultural asset classes. Yet there has been no obvious trend to developing new large scale feeding and finishing enterprises. Environmental and permitting issues for concentrated livestock operations have become more complex and demanding but the point has not been reached (as in large parts of Europe) where regulations are completely prohibitive.

An argument can be made for the proposition that the business and tax environment in many provinces of Canada discourages all entrepreneurship and business expansion. However farm income from crops and livestock is treated the same and relatively favorably as against other business income and especially in comparison to labor income. Government economic supports for farming, while they have been dramatically cut in recent years, are still available that have no counterparts in non-agricultural business or industry. On the whole taxes and regulations do not make it decisively harder to grow a livestock operation than a crop or comparable non-farm business.

So we are left with the following theory. Profitability of crop and livestock agriculture alike is not easily or automatically achieved or maintained. Agricultural prices are too low (except during their periodic peaks) and costs can too easily get out of control. Risks are constant, high, unpredictable and not easily managed. Indeed no part of any kind of agricultural enterprise is easy to manage. That is your limitation. Farm management is actually so difficult that the number of people able to do it successfully and interested in doing it for a living is not very large. Compared to crop farming with modern leather-upholstered air-conditioned machinery, livestock raising is physically demanding and much of it is chronically and unavoidably unpleasant. The tipping point may well be hired labor. Recruiting, training and retaining staff for a pig barn is orders of magnitude harder, and more is required, than for a wheat-and-canola farm.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

Competition in the sense that it is understood in free enterprise is a chimera when it comes to the railway transport sector. Commercial forces in rail are not the same as commercial forces in other industries. Railways necessarily have separate service areas. Each railroad has a monopoly in a large geographic region, and not just in grain and not just in Canada.

No one would build track to parallel another railway's route, even if the cost of new railway construction were not prohibitive. Laying new track today is a non-starter except in special situations such as to service a new high-value customer, for example a mine. The railway system functions, at the rates it charges, largely because the lines date from a century or more ago. The first transcontinental railway was built by the CPR for less than $100 million in 1885 dollars through territory that did not require right-of-way acquisition. Over half the original investment was provided in loans from the federal government. One dollar today has the same value as 3.5 cents in 1880. In competitive terms practically all the railway track and railbed that will ever be available is already present and in use.

The railways can do practically nothing to increase traffic within their geographic areas, or prevent traffic from varying or declining, and this is particularly so with grain. Crop production and the tonnage available to be hauled varies widely and on short notice from year to year. Each railway is completely assured of getting all the volume that becomes available because there is no alternative mode of transport, and they are assured of it whether they serve their shipper customers well or poorly. There is no river barge system as in the US, which moves nearly a quarter of corn and soybeans to export from the Gulf of Mexico at such low cost that the railways do not seriously attempt to compete.

Railways certainly do compete for traffic between major population and economic centres. You can ship goods by either CPR or CNR from Vancouver to Calgary or from Winnipeg to Vancouver, but only the CPR can move anything from Vulcan to Vancouver and only the CNR can move it from Tisdale to Thunder Bay. The CNR cannot do anything to obtain business from Vulcan and it has no incentive to keep rates from Tisdale low out of concern that the CPR could win some of its traffic with still lower rates. At the few western grain delivery points where shippers have a choice of railway, the CNR and CPR do not cut-throat each other's rates and that is hardly surprising in view of the small amount of traffic that could be gained.

Of course the Maximum Revenue Entitlement was never meant to stimulate competition. Neither does it reduce competition, which is already extremely limited. The real issue is whether removing it would cause the railways to take a keener interest in grain traffic or add grain-haul resources, as they claim they would do.

The revenue cap is also a profit cap, since allowable revenue is linked to the cost of providing grain rail service. If costs rise, rates rise and vice versa, but according to a rigid formula that puts the railways in the position of cost-plus service providers for 13% of their bulk traffic. If the cap is removed the duty of railway managements to their shareholders (and also their employees) would be to maximize revenue and earnings. In pure competitive free enterprise the search is always on for opportunities to increase revenue by more than the expenses required to generate it, in fact to obtain the highest revenue with the least expense. It's called business.

Government regulation of business is repulsive and counterproductive in all times and places. There is a tendency in governments, also in all times and places, to approach business regulation from the point of view that regulated industries must be closely controlled and their activities proscribed because they are inherently predators. Enforcement and penalty provisions may be freely borrowed from criminal justice and the tax law. Managements must be made to understand that government is bigger than they are, and it is true, and only big companies with legions of lawyers can stand up to the junior civil servants in charge of administering the law.

It would be infinitely better if free market principles were applicable in grain rail. To be fair, the expectations of some farm and commodity organizations are often unrealistic. But this is a unique situation in which issues of monopoly pricing power must be addressed. The railways are not the only entities that have to live with government supervision. They would be better to try and cut the best deal than to keep claiming that they will be altruistic and selfless if left alone.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

At the recent annual meeting of the Alberta Wheat Commission, a resolution was adopted urging governments to force grain companies to disclose the prices they are getting for export sales at ports. It was at least the second time such a resolution has appeared on the convention agenda. Further back, it was a perennial demand to the old Canadian Wheat Board, from supporters as well as opponents of the monopoly, that it should reveal its selling prices.

The preamble to the AWC resolution complained that “the grain industry is not forthcoming with transparency in its handling of farmers’ grain . . . including the price received at port.” The Commission was asked to lobby to require grain companies to report international sales to Cereals Canada and/or the Alberta Wheat Commission, which would presumably aggregate and publish them. Surely no one could be naive enough to expect that any regulation could ever be enacted forcing individual companies to disclose their selling, or any other, prices to the public. No company or individual in Canada is required to provide any pricing information except to the government under the confidentiality of the Statistics Act.

Actually Agriculture Canada already publishes a weekly price summary of sorts that includes Vancouver export prices and other indicator prices, but it is unclear how the information is obtained or what it really represents. It has some unusual disclaimers and advises the reader to “Please contact your grain handling company or local elevator for actual selling/buying prices at your location.”

That such a resolution could be presented and debated in such a forum as the Wheat Commission shows how little change there has been over decades in the perception that some fringe population of farmers has of their relationship with grain companies. The resolution implies the stunningly bizarre notion that grain companies would have no problem revealing their port prices if they had policies of ‘transparency.’ It extends the decades-old and deeply engrained suspicion, again in a durable fringe group, that grain companies are not paying enough for farmers’ grain, are obtaining fantastic prices from buyers and making too much money. The only purpose behind the desire to know port prices is to see what margin grain companies are enjoying.

It is not even worth discussing that there is no way to compare prices in the country with prices at ports, or to judge whether a given margin between buying and selling prices is proper.

Everywhere you turn today trust in free market, free enterprise and free competition principles seems to be eroding. It is the only imaginable explanation for the bizarre circus that unfolds daily in the US presidential election. Great numbers of Americans are unable to adapt to the changing and increasing demands of an economy and society that is technologically galloping forward, but they recognize no personal responsibility to do so. So they blame ‘the system’, and support candidates who promise to tear it down, starting with the financial infrastructure that is the foundation of any economy, free-market or other.

Hardly anything involves market forces and natural market behavior to the extent that commodity commerce does. The principles are irrefutable that (a) the true value of a thing is whatever someone is willing to pay for it, and (b) price is where supply and demand meet. Reasonably reliable mechanisms have evolved to constantly find out the lowest prices which sellers are willing to take and highest that buyers are willing to pay.

Grain companies do not dictate the prices at which they sell grain out of Vancouver. They are price takers in a global market that has many sellers who are competing with each other for business, now more keenly and aggressively perhaps than ever before. Grain companies also do not dictate the prices they pay to farmers, notwithstanding that many farmers are exactly so persuaded. A company which does not pay competitive prices does not get the grain and if it does not get the grain there is no reason, let alone way, for it to exist.

Every seller, all the time, has the option of selling or not selling. If the price offered by numerous buyers is similar, it is not evidence of collusion (which is illegal and which is easily discovered). It is evidence that competing companies have similar costs of doing business and similar potential revenue from international buyers. So at any given time there is a narrow range of possible cash prices, the common anchor for which is the futures market.

Because fixed costs are high, every grain company has to operate as close to its capacity as possible, so has every incentive to buy all the grain it can handle. It has to pay prices that enough sellers will accept. It’s as simple as that. End of story.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

Decades before they met, Henry Ford and Harry Ferguson had separate but almost identical ambitions: to bring engine power to farms at such a low cost that every farmer in the world would be able to afford a tractor. The land used to grow feed for horses could be diverted to cash crops. The drudgery and 24/7 attention that draft animals entail could be put to leisure. Mechanized farming would make it so attractive that instead of leaving the land, workers would want to return to it in large numbers. Ford and Ferguson were both farm boys with unhappy memories of crude subsistence farms.

Ferguson's theories were more elaborate than Ford's. He developed a plan which he called the Price Reducing System. Farm mechanization the world over would increase the production of crops and lower the price of food. With ever-cheaper food relieving the pressure for higher wages, inflation would be automatically contained in perpetuity. World peace would prevail as desperate competition for food and land became unnecessary.

When the two met in 1937, Ford was easily persuaded that the system of simple mounted implements on a very light, cheap tractor invented by Ferguson had the potential to revolutionize world agriculture and make a permanent impact on world history. Less than two years later a Ford factory was turning out 500 Ford-Ferguson 9Ns a day, selling for $545 for the tractor and $62 for a two-bottom plow. When the war came, Ford and Ferguson were able to convince officials responsible for steel allocations to keep the plant supplied, when other farm equipment companies abandoned farm machinery in favor of more lucrative munitions work. After the US entered the war in late 1941 and young men were being drafted off farms, the pint-sized tractor became even more popular, so simple to use that a schoolboy and even a woman could drive it.

But it takes more than a little grey tractor to change the course of agricultural history. Although exquisitely designed, the Ford-Ferguson was already obsolete as the prime power for North American farms when the war ended. Returning soldiers were less likely to take up farming than if they had not seen the world, and the process of farm consolidation began. The Ford Ferguson tractor was scaled for a quarter-section family farm, but the family farm was already outgrowing it. Neither Ford nor Ferguson considered building a bigger model or a range of models. The partnership broke up not (as was widely understood) because of an argument between Henry and Harry but because Ford became too old and ill to run the business, and his successors quickly saw that, in the absence of any written agreement, there was no need to put up with the abrasive Ferguson. Ford introduced its own 8N, an almost exact copy of the Ferguson. A four-year lawsuit followed which was settled for $15 million. Ferguson went on to make his own tractors in the US and England, but the business would have failed if not for the 1953 buy-out by Massey Harris (for $14 million in shares, making Ferguson the largest shareholder). Massey Ferguson would become the world's biggest tractor manufacturer by units during the 1970s, before it also ran into financial storms and was eventually dismembered by Conrad Black and his family's Argus Corp. It survives as an Agco brand, in a world neither Ford nor Ferguson would recognize.

Ferguson's simplistic economic theories had substance in principle, if not in intended application. Though not because of mechanization alone, crop production has indeed expanded to overwhelm demand and to drastically cheapen the price of food despite the inescapable vagaries of weather. Supply-side economics principles, which originated in the anti-Keynesian Chicago School in the 1970s, followed a remarkably similar line, that by encouraging capital investment (including through lower taxes and smaller government) and increasing production capacity, the supply of goods would more than match the demand, automatically controlling inflation.

Not just in world food, but literally everywhere, explosions in the capacity to produce and the consequent overwhelming volumes of output are keeping prices low and destroying high-cost, non-competitive production. China's current economic difficulties (if 6.9% annual growth can be considered a difficulty) have arisen because of over-expansion of factories, not shrinkage of demand for Chinese manufactured goods. Supply-side theory explains unemployment also: capital and technological advancement allows 80 or 90% of the workforce to produce 100% of the goods, making low-skilled, low-productivity workers redundant.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

In normal circumstances judging a new government after two months in office would be exceedingly unfair. But Canadian political life has suddenly passed into very abnormal circumstances. Normally a new government would take some time to review its election platform against information that was not available to it while in opposition, reconsider and refine and then begin to act upon them.

Not so the new Trudeau government (for economy of words, T2 hereinafter). As fast as it can, it is proceeding as if its election platform is of such logical and ideological perfection that no new in formation needs to be factored in. We can already clearly see which way the hood is pointed, and it is in the same general direction as the original Trudeau regime (T1).

T1 increased federal spending by 80% in 15 years and the federal deficit and national debt by 10 times. Successor governments have struggled until the immediate past with the debt and interest expense created by T1 policies. T2 clearly has the same cavalier attitude towards deficit spending and nothing has been proposed to defer or adjust grandiose spending plans. It takes this confidence from the notion that it was elected while clearly stating its disregard for deficits.

T1 repatriated the constitution, but in the process created the Charter of Rights, which might as well have been deliberately designed to transfer legislative and policy-making powers to the unelected, unaccountable and not responsible courts, especially the Supreme Court. It has led to a US-style litigatory environment in which gives special interest groups, if they can persuade the Court (which has not been difficult with leftist ideas), dangerously excessive influence on public affairs. For all its massive sweep, the Charter is silent on matters of property rights. The commensurate undertaking of T2 will be to revise the voting system within two years. Every alternative under consideration will guarantee that there is never again a stable federal majority government in Canada. Splinter parties will proliferate. Each election will be followed (as in Greece and Israel, for example) by the formation of alliances that create a majority voting block. As long as Canadian political opinion remains roughly 40% conservative, 40% left-liberal and 20% hard-left, such alliances, whether formal or informal, will also guarantee that governments will be predominantly left-wing and will remain regionally unrepresentative and eastern-centred. The T2 government plans to design and implement a new system without a referendum, which has drawn some criticism, but a referendum would not necessarily produce the most practical result because the voting public does not have the ability (and mostly not the inclination) to understand very complicated issues and decide.

Western Canada and its core interests were routinely marginalized and victimized so brutally for 15 years as to give rise to ideas of western separation. The centre of political gravity has returned to central Canada: Ontario and Quebec. Not a single senior T2 cabinet minister in an economic portfolio is from the west and there are only weak voices to represent western interests and a western point of view in the cabinet and the Liberal caucus. We already have the signal that agricultural policy will be made in the east, possibly for the east. As for the petroleum industry, the radical-left NDP government in Alberta and the T2 government in Ottawa are the perfect storm. The oil and gas industry is being kicked while it's down. Instead of aggressively promoting pipeline development necessary to get western oil to more markets, as is their responsibility, both governments oppose it actively or by inaction.

Already being openly discussed in the T2 government is the guaranteed annual income. If ever enacted this ultimate socialist device to transfer wealth from people who earn it to society's leeches and freeloaders will be next to impossible to dismantle. The T1 government attempted to introduce a GAI through the unemployment insurance system. For a time seasonal workers could enjoy modest but reliable year-round income by working a month out of 12. It took years of small steps to restore the system to its original purpose, as a safety net for those who lose their jobs.

There was talk around Ottawa last week that T2 will attempt to reach a free trade agreement with China, as Australia has done. All trade with China will always be on China's terms, but at least it suggests that the Trans Pacific and Canada-EU agreements will be ratified, though the government has not categorically said so.

The people have decided and whether they realized that they were setting a process in motion that will permanently change the country is now beside the point.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

The reason that world food demand is increasing more slowly than projected or expected and more slowly than production is that the world population does not have enough money to buy more or to buy higher-valued foodstuffs. Hunger and starvation are at historic lows because the simplest, most basic foods are the cheapest in human history in constant terms. People can live on wheat and rice if they can't afford meat and that is what billions are doing.

The reason that people don't have enough money, for food and other essentials, is that they don't work, or work for very low wages or very little of the time. The unemployed may be too young or old, unskilled and unqualified, or not inclined to labor. Or there is not enough work where they live to go round and employ everyone. Some percentage of the population that is much below 100% can produce all the goods and services that 100% consume.

Unemployment issues are closely associated in the so-called economics profession (more like a black art) with economic growth rates. Much of the developed world is most of a decade into various degrees of economic recession, which does not seem as clearly a part of a cycle as in the past, especially in Europe and North America.

The mean unemployment rate for countries of the world (as many higher as lower) is 9.5%. Only two countries (Colombia and Morocco) which are significant importers of Canadian grains have unemployment rates higher than the mean (9.7% and 9.5%). The Trans Pacific Partnership countries that are net importers of food (Japan, Vietnam, Malaysia, Singapore) have an average unemployment rate of 2.6%. But in the underdeveloped world, often considered to be where future demand growth is, single-digit rates are unknown. In Africa they range from 22 to 54%. There are also serious, advanced countries that have double-digit rates (Spain, Portugal, Italy). Whatever the details, it does not look like global employment will rebound in some spectacular way just in the near future or that if it were to do so food demand will surge accordingly.

Causes of unemployment are greatly debated, but the single ultimate conclusion is that economic demand in the world is not high enough and not rising fast enough to absorb the production that would result from high employment. Full employment is not 100%, and may not even be 80% of the available workforce. Whatever it is, it is obvious that it will never be reached on a world scale because all the labor capacity which exists or will exist will never be needed.

A prime reason is globalization. Freer flow of goods and people has allowed the cost of goods to equalize around the world, at the level of the lowest-cost producers. If imports are cheaper than domestic costs, domestic production shrinks and fewer people are employed. The general standard of living rises if less income is required for the necessities and even luxuries. Jobs lost to imports should be replaced by other jobs in industries that are sufficiently competitive to export other goods, but only two kinds of countries (with extremely highly developed societies and technologically-superior economies or those with efficiently exploitable natural resources) have any hope of doing this. Of those which have desirable natural resources, political and government systems often get in the way. Resource extraction is less of an advantage in times like these, when there are surpluses of every imaginable raw material. Globalization works admirably for the most capable, competitive and aggressive countries. It does not work well for the part of the world containing perhaps half its population, and it will never work for perhaps a quarter of the population.

Even in the most advanced countries (and possibly especially in such countries), technology and automation are displacing workers and job skills that only recently were considered irreplaceable and this is just the beginning.

The best thing we can do is to face reality and stop paying attention to this drivel about this alleged coming explosion in population and food demand and how grievously the agricultural system of the globe is going to be challenged in a mere decade or two. It is world food demand and world economic prosperity that cannot keep up with supply, not the other way round. If progress in agricultural technology does not accelerate, or even if it decelerates as a result of artificial and wrong-headed restrictions, the food producing capacity of the world will still cope with anything that can happen on the demand side. The risks in the employment and food equation are war, revolution and social and political instability arising from the difficulty more and more people in the world face in earning a living by their own devices.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

Nine years and eight months is a long time to be prime minister of a country whose voters have a consistent history of turning on their leaders out of over-familiarity and boredom. Trudeau I, Mulroney, Chretien, in their turns came into office with stunning majorities and flying colors and left with stones being thrown at them. Pierre Trudeau's approval rating when he finally left in 1984 was 27%.

Harper would have had a more reasonable chance at one more turn but for a series of unnecessarily abrasive and substantially meaningless acts and omissions. There was no reason to withdraw from the Kyoto protocol; hardly any country ever seriously observed it but all understood the optics of saying so. Likewise with the long census form, which most people have never even seen. The much-demanded enquiry into disappearances of aboriginal women (which would have shown that nearly all are victims of aboriginal men) should have been readily initiated. There would have been no Senate expense scandal if persons only of stature had been appointed. There was absolutely no point in creating or allowing to continue controversies over such trivialities as the names of museums or the siting of monuments. While he had no admirers in the media and an understandable revulsion to CBC reporters, a prime minister must hold regular news conferences and squarely confront his attackers on national TV. Harper was prepared to be prime minister on his own terms only, not exactly an uncommon trait among politicians who would be leaders, but not a strategy helpful to consecutive re-elections.

The absolutely worst October 19 outcome for the country would have been an NDP majority or minority. Besides putting the whole nation on the economic growth track of Manitoba, it would have shown that Canadian voters are capable of swallowing left-wing propaganda and its philosophy of self-delusion that has failed everywhere every time it has been tried. Instead voters relegated the NDP to the fringe-party place where it belongs. There will always be a left-wing political grouping of those of such persuasion and they might usefully present radically alternative points of view, but under no circumstances can be trusted with actual authority. The vacant, unpleasant Mulcair will be around but we don't have to pay attention any more. A minority Conservative government would have triggered an NDP-Liberal coalition or some other form of power-grabbing collusion, while a Liberal minority would have given the NDP an influence it has never earned at federal polls.

Now to look ahead. Inasmuch as the Canadian public, in a free and as far as we know clean election, selected Trudeau 2.0 for the highest public office, we should give him every chance to show us he is up to it, or at least has some capacity to be trained on the job. We need to convince ourselves that promises made during an election campaign mean no more in this instance than in the past and have little relevance to what the new government will actually do. We have to find out whether the new Trudeau knows what he does not know and understands the limitations of his narrow experience and insubstantial background. We should wait and see who are the advisors with whom he surrounds himself and the extent to which he is guided by them. Those over 60 have to realize that there is a generational progression in everything. Most of all, we should assume until it is proven otherwise that the historic Liberal party tradition in which accomplished, capable, seasoned and mature people use their unseen hands to steer the frontmen and frontwomen has survived this party's nuclear winter.

If true, we will not see that he has inherited his father's fanatic hostility to the business, financial, industrial and natural resource components that make this country go, supply the jobs and create the wealth. The 'modest' budget deficits that have been pre-planned will actually be modest and will not balloon out of control. A tendency will not develop to organic growth of government and its cost. The promise of a "full and open public debate" in parliament of the Trans Pacific Partnership will be kept with the understanding that such debate is just another kind of high school drama class, and that the agreement will be speedily ratified by the Liberal majority told how to vote. Opposition to pipeline projects was expressed during the election campaign only to keep the radical environmentalists from drifting away and now these projects will proceed expeditiously within the existing regulatory framework. Future Senate appointments to fill the record number of vacancies left by Harper really will be apolitically made of persons of genuine and recognized worth and merit. The promise to legalize marijuana was just a campaign trick to prevent the Marijuana Party from gaining seats in the Commons.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

Given the muddy political currents, get ready to hear a whole lot more about 'sustainable' agriculture.

Google it and you are told that there are 44.2 million hits. To spend a minute on each would take 142 years, no sleep, washroom or lunch breaks. Google *unsustainable agriculture* and you get about 7 million, most of which appear to be about sustainable agriculture or result from the occurrence of keyword combinations.

For all that ubiquity, there is no concise, agreed definition of sustainable agriculture. It is different things to different people. To serious scientists and researchers it generally means the prevention of catastrophic damage to land, especially from erosion, encroachment by desert sands or salt accumulation. To 99.9% of sustainable agriculture enthusiasts it is a combination of illogical and irrational principles in a bucolic, dreamy package. At its centre is the militant rejection of food production techniques and practices developed over the past century through science and economics, and which make it possible for the overwhelming majority of the world's population to be adequately and affordably fed. The unbearable evils to the sus-ag crowd are monoculture, mechanization, biotechnology, chemical pesticides and fertilizers, biotechnology, large scale ('industrial agriculture' or 'factory farming') and globalization. Some of numerous and overused key words are *organic, free-range, low-input, holistic, renewable, biodiversity, agroecology, climate change* and *biodynamics*.

It's not just about farming. Sustainable farming is also supposedly about preserving rural communities and stabilizing or increasing farming populations, improving the quality of life of farmers, their families and farm laborers and meeting other 'social goals'. The only acceptable kind of farm is the 'family' farm.

The class of people involved in this phenomenon that most surely benefit from it are the promoters, book writers, researchers, instructors and thinkers. Most agricultural educational institutions have sustainable agriculture programs. Philanthropic foundations are the biggest supporters of countless national and international organizations and institutes devoted to this subject.

Sustainable agriculture as it is currently promoted is basically primitive, small-scale subsistence farming entailing long days of unpleasant manual labor without the faintest hope of a middle-class income. Whereas world hunger has been greatly alleviated by the transfer of knowledge and technology from the developed world to the undeveloped, the sustainable agriculture movement represents a flow in the opposite direction: the popularization of practices that have been obsoleted by economic and technological progress or adaptations of those still used in backward places.

If sustainability means what it says (the ability to continue indefinitely), there is no way to improve on commercial agriculture today, or if there is it will be found by future scientific research. A common denominator in the sustainable agriculture movement is that contemporary farming practices destroy the soil, while so-called sustainable practices improve and preserve it. If there were no other aspect of this phenomenon that destroys its credibility this would be enough. Soil is a medium. Hydroponic crops are grown with no soil at all. Soil must be protected from erosion, which current limited tillage practices do. Each crop consumes fertility which must be replaced to sustain production. The most effective and efficient way to do so was long ago found to be chemical fertilizer, also the only way that the most desirable balance of plant nutrients can be maintained.

If there were no chemical pest control methods there would be almost no food. Pest populations would be limited only by the availability of food and predator numbers. Pest numbers would decline only when the crops have all been eaten. So-called organic farming is possible only because farms that do not use pest control chemicals are surrounded by those which do. Likewise with diseases.

Sustainable farming ideas are at a piece with the local food movement. The model sustainable farmer grows crops and livestock, processes the results on the farm and sells them at farmer markets or to restaurants, bypassing the hated supermarkets. Imagine that the feedlots around Lethbridge tried this.

The rising profile of the sustainable agriculture phenomenon is another manifestation of the peculiar process in which educated, intelligent people look at the same facts and come to completely opposing conclusions. If cars were produced according to sustainable agriculture principles, millions of local garages with a few mechanics would each be making a handful a year, by hand, from scratch.

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If you ask me . . .

BACKGROUNDER/ *Morris W. Dorosh*

Every business on this planet, of every size in every field, has the same two components and only two: capital and labor. To be competitive an enterprise has to have access to capital on tolerable terms and at affordable cost and also to a reliable supply of competent, productive labor also competitively priced.

Only the previous generation of managers today remembers a time when business borrowing costs were in double digits. Roughly speaking, loans to credit-worthy business borrowers were above 10% between 1980 and 1995 and peaked at 20.5% in 1985. Interest rates currently are the lowest in 60 years and have been in these ranges for a decade. That means they will have to rise, according not so much to the laws of money supply and demand as the unknowable reasoning and outright whims of central bankers. It is now two years that the US Federal Reserve has been on the verge of raising rates. Whenever it does so, the repercussions will be worldwide, especially on exchange rate relationships.

In this remarkable low-interest-rate decade there has been no shortage of credit in Canada or North America. This is historically unusual; generally the supply of loan funds declines when rates are low as owners of capital seek other ways to improve returns. It rises when rates are high because fewer borrowers qualify and because relatively safer debt investments are better aligned with equities and venture capital opportunities.

Business faces the prospect of higher cost of capital just ahead, perhaps not in an abrupt leap but in a systematic pattern of incremental increases over an extended time. The probability of a still weaker Canadian dollar is massively higher than of dollar stability or strengthening. The cost of imports and domestically produced goods priced in American dollars will rise accordingly. Returns from exports will also be higher except those to other weak-currency countries or which are not priced on a world basis.

In the midst of stubbornly high unemployment rates, there are labor shortages at every hand. Temporary foreign workers are needed because Canadian workers either do not care for or cannot do the jobs that have to be filled. Mostly it is the former, but the political outcry against temporary workers leaves employers in the position of not being able to find local workers and not being allowed to bring in guest workers. While there is a mindless backlash against temporary foreign workers, there is no concern about the extremely high level of immigration, which adds to the surplus of the underqualified in the labor force while not doing much to cure skills shortages. Canada does not, at least as far as is known, have a big illegal immigration problem but it arguably has a legal immigration problem, at a time when global attitudes are increasingly in the direction that residents of poor or war-torn countries have a right to move wherever they want and developed and peaceful countries have a duty to cheerfully admit and lavishly accommodate them.

Labor costs, that is wage and salary scales, tend to be well controlled during high-unemployment periods, and that is the case at present. The decline in unionism (except in government service, where it flourishes as never before) has helped to discipline the expectation that remuneration for labor must constantly increase. Tight job markets have also been conducive to more flexible arrangements between suppliers and users of labor, to the benefit of both.

However governments have no capacity for leaving well enough alone. The drive for higher minimum wages, which is gaining momentum across more and more fronts, is an enormous but poorly recognized threat to Canadian competitiveness. The $15 minimum is almost an established fact. As more jurisdictions adopt it, more are forced to follow. Minimum wage theory rests on the completely false and nonsensical premise that every employee can make an economic contribution to the employer at least equal to the mandated minimum. Each time a legislated minimum wage is increased, so must wages throughout the lower half of the scale. No matter how many studies purport to show that raising minimum wages does not lead to less employment and does not harm those forced to pay them, employers will react in logical ways, reducing staff sizes, limiting their growth, raising qualification standards and substituting technology and machinery for labor. No one except governments will pay $15 for an amount of work that has a market value of zero to $10.

These are substantial challenges to businesses and those who run them. That all will be affected more or less similarly is little consolation.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

Not readers, not book publishers and not reviewers seem to tire of the apparently endless stream of books that hack away at the same demonstrably-false set of theories and claims about the future of food. The central theme is the sure and certain disaster just ahead and the contribution of modern agriculture to this preventable collapse. The books are written to sell, like movie scripts, and with about as much attention to facts. Sell they do, adoringly reviewed in the best left-wing media. A certain kind of people just can't get enough catastrophic predictions. They can't understand why the global food system, confronted by such plain evidence that it is on the wrong track and taking humanity with it, is not turning itself inside out to stop before it's too late.

The latest contribution is *The End of Plenty*, by one Joel Bourne, who has mastered the art and science of creating this kind of stuff for the gullible to Shakespearean proportions. He is described as "an award-winning environmental journalist" who is also a graduate agronomist, which gives him, it seems, special qualifications.

Nothing taught in agronomy school has found its way into this book. It repeats, recycles and regurgitates the three legs of the ecomanic's stool: world population growth is relentless, modern agriculture is all wrong and climate change, with its point of no return just around the corner, will kill anyone who has not starved or been killed in a food riot. If awesome statistics can get more awesome they soon will, such as that the world needs to produce as much food in the next 40 years as it has since the dawn of civilization, or that half of the world's arable land will be a useless desert by 2100 because of climate change.

Bourne begins with Robert Malthus, the 18th-century alarm-monger who made a name for himself by explaining (in his 250-page 1798 *Essay on the Principle of Population*) that (a) food is necessary to human existence and that (b) since sexual passion will never abate populations will grow and grow, doubling and redoubling, until the flat-line supply of food becomes completely insufficient. Then watch out.

Bourne thinks that Malthus was right, just ahead of his time. Sheer luck prevented his predictions from coming true sooner. But now the fat is in the fire. The Green Revolution has failed, national and global agriculture policy is misguided, chemical damage is everywhere, biofuel consumption of crops is making food unaffordable, climate change is already upon us. The benefits brought by the Green Revolution were not worth the 'ecological devastation' that ensued. World population is skyrocketing while global grain supplies tighten, "spurring riots and revolutions". If we could only learn to consume less, have fewer children, quit eating meat and go back to pre-Green Revolution farming methods we might yet have a chance to save ourselves. Family planning programs (Planned Parenthood, perhaps?) need to be brought to every corner of the globe until zero population growth is reached.

This ridiculous book with its zoony reasoning arrives in the midst of the biggest grain surplus in human history in both absolute terms and relative to use. The economic and social issue in front of world agriculture is not an inability to meet the demand but the stubborn propensity to overproduce. World population is stabilizing. It is not overwhelming the food supply, it's the other way round. Steady improvements in productivity create surpluses, which depress prices, creating a more urgent threat to food sufficiency than any global warming theory. If there is not sufficient profitability in farming, dozens of factors will gradually come into play which will divert resources, including research and technology, away from basic food production. Biofuels, far from increasing the cost of food for those who can afford it least, are a safety valve: by sopping up excess production in times of surplus it helps maintain agriculture's productive plant. Anyone who really wants a fright over food should consider what would be happening if 40% of the US corn crop were not being used for ethanol.

The soils and waters of countries in which advanced agricultural practices have been adopted have never been healthier or production more sustainable. Writers who want to make a constructive contribution to the food debate more than they want royalties should turn their attention to the social and political obstacles that are being placed in front of agricultural technology. Malthus is also known for resisting the industrial revolution, and his modern-times counterparts are those who spread superstition and falsehood about the products of the research and innovation that is the real guarantee that the world can feed itself for as long as it shall last.

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BACKGROUNDER / *Morris W. Dorosh*

Prime Minister Stephen Harper, said NDP leader Mulcair in a letter last week, must defend supply management in the Trans-Pacific Partnership negotiations. He complained that Harper's remarks recently (in which he promised to do exactly as Mulcair wishes) "have created uncertainty for dairy, egg and poultry producers." "I am urging you to commit to defending supply management in its entirety and reassure Canadians that it will be protected in all future negotiations," Mulcair wrote. "In Quebec alone, nearly 7,000 family farms exist and prosper thanks to supply management", which "accounts for 92,000 jobs and 43% of total agricultural revenue."

Incoherence is the expected thing from Mulcair. His arithmetic seems a bit off. Supply management nationally provided 16.9% of farm-gate cash revenue in 2014, down from 17.0% the prior year, so Mulcair must have been referring only to Quebec. In that case gross revenue from milk, egg and poultry sales in Quebec was 2.55% of Canadian farm cash income. Employment allegedly created by the system can be almost any number depending on how creatively it is defined by liars who figure.

Mulcair either does or does not understand the illogic of his supply management policy. If he does, he is pandering pointlessly to a voter bloc that will do him no good in the next election or any election. With families and friends, 7,000 Quebec dairy farmers account for maybe 75,000 votes scattered around a dozen ridings in rural Quebec. Most votes there will go to the Bloc or to whoever is the separatist of the month. Meanwhile there are upwards of 24 million consumer voters whose interests the supply management policy harms through inflated food prices. The average dairy farmer in Quebec, as elsewhere in Canada, is a wealthy entrepreneur, not a kinsman of the union laborer, the unionized teacher or the welfare bum without whom there would be no NDP. The left-wing parties should be the first to want to see supply management gone and its privileges removed, pursuant to the menshevik principle that everybody who is doing well ought to be penalized. Especially they should have an interest in reducing the cost of staple foods for low- and fixed-income Canadians, who disproportionately contribute to the affluence of the monopoly. The percentage of incomes spent on food is highest for those with lowest incomes. In that way supply management exacerbates the disparities in incomes, wealth and living standards that so irk the political left.

It must be that Mulcair, or whoever decides NDP policy, cannot see the difference between a milk marketing board and a labor union. But whereas unionism's prey are the big, rich, despised corporations that create the jobs and propel the economy, supply management feeds off the powerless. Someone in the Conservative party might point this out.

However, with the election scarcely three months off, there is more to worry about than Mulcair's blowhard drivel on supply management. The chances that he will head the next government are alarmingly above zero. If the NDP takes over, it will assume management of the most important trade negotiations in Canadian history at their most sensitive stages: the CETA Canada-EU agreement and the Trans Pacific Partnership. In general NDP policy and free trade have never been compatible in the past and no assurance has been offered that they now are. Canadian negotiators with years of experience might be replaced with greenhorn loyalists. Other parties in these negotiations will not be inclined to put them on hold while the NDP dries itself behind the ears. An NDP trade minister, if there is one, could annul undertakings by the Harper government's representatives and advance new demands for which other countries will have little patience. The current struggle to stay in the free-trade game is virtually certain to give way to indifference, with an unacceptable risk of ejection and isolation.

For the Conservative government, for core employment-making Canadian export industries and Canada's economic health (not to mention non-supply managed farmers who outnumber the S-M crowd by 10 to one) the trade agreements now on the table are so vital and fundamental that there is no possible way to overstate their case. To the NDP they are of minor account, especially if not vetted by the unions. To the voters who will decide the election, it is a popularity contest in which the personalities of Mulcair and Harper are comparably abrasive, but in which Mulcair has the advantage that a vote for him will bring about change.

It sure will. See what change for change's sake has done for the Americans, and how many of the changes promised, effected or attempted have been beneficial.

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If you ask me . . .

BACKGROUNDER / *Morris W. Dorosh*

For the best part of five years the world financial system has been flummoxed by Greece. Greece has a population of 11 million, a GDP smaller than Quebec's and a national debt that approaches Canada's, almost twice GDP (the EU average is 92%). Its economy has contracted by 23% in five years largely due to anti-business and anti-investment policies of past and present governments. In the best possible circumstances, with a responsible government and sensible economic policies, it is extremely unlikely that Greece can ever pay down its sovereign debt by enough to bring its ratios into internationally accepted ranges.

Greece does not have a responsible government and is not in good circumstances. In an election six months ago its voters chose the Syriza party, a third of whose leaders are admitted communists and even further-left extremists. Voters believed the promise that discipline in public spending and general austerity to stabilize the economy were not necessary, and that Greece could continue indefinitely to live beyond its means. Immediately upon election Syzria rehired thousands of redundant civil servants, reversed pension rollbacks and other reforms required by creditors as a condition of the last bail-out. These measures were intended to create a budget surplus before debt service. Now Greece is literally broke and cannot meet immediate repayment obligations to other EU governments, the European Central Bank or the International Monetary Fund. As of late last week, after months of negotiations that often looked surreal, it appeared the country would default, since other EU governments finally seemed to be unwilling to continue to lend more funds that will not be repaid.

There are no circumstances under which the Greek government should be making demands of the EU, or under which the EU should be considering them or negotiating compromises. Greece has been in violation of the terms of EU and eurozone membership for years. It is logically ineligible for continuing membership or the benefits of membership. Matters should never have been allowed to get this far. Yet another financial rescue by the EU means rewarding Greek irresponsibility at greater and greater cost to other EU taxpayers. It should have been forcibly ejected from the euro zone to preserve the integrity and credibility of the euro system.

It is not the political establishment in Greece but the voting public of Greece that has set the course for national ruin. Greek politicians are merely taking advantage of the situation for their own purposes. As in other countries, Greek voters are not qualified to adjudicate among dizzying arrays of competing scenarios and proposals to cope with complicated economic and fiscal issues which are presented by politicians. Nobody wants to believe that there really is no such thing as a free lunch. Voters want a free banquet, and if they don't get it they replace their leaders, it they can.

Canada is in terrific economic shape compared to most other countries, including many leading EU and OECD countries. Its 2015 budget deficit was 1.8% of GDP compared to 2.5% in the US, 4.2% in Germany and 6.9% in Japan. Unemployment at 6.8% is high but not as high as the 11.1% in the euro zone. Its current account deficit (goods and services trade and investment flows) is $42 billion compared to $410 billion for the US and $314 billion for the euro zone. A balanced budget, manageable debt and tolerable debt service costs have not been easily achieved, especially through intervals of minority government during which it was impossible to implement spending restraint, and more lately the Saudi-Arabia-engineered collapse of world oil prices. Each $10 per barrel change in crude oil is $1 billion a year to the federal treasury.

However Canada may be a couple of elections and a few fiscal years from becoming the New World's Greece. Unless the emerging NDP contagion on the national scale is stopped, Greece today is where Canada is headed, and for the same reason, which is the appeal of promises that cannot be kept.

The new Alberta government, just in its infancy, has already shown that comparing its philosophical persuasions to those of Syriza is hardly crazy. It has rolled back billion-dollar anti-deficit spending cuts, confirmed plans to increase corporate and high-income individual taxes and raise minimum wages, as it said it would. Now the distinct possibility arises of an NDP federal government after next October, as it approaches the electorate with the newest something-for-nothing promises. A minority NDP government could perhaps be restrained from the worst excesses. If a majority, all bets are off.

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It is inconceivable that the Harper government does not have a contingency plan as the freight trains of the October election and the Trans Pacific Partnership trade negotiations hurtle towards each other. The trade talks are held up by the reluctance of the US House of Representatives to follow the Senate and approve legislation allowing the Obama administration a free hand in working out an agreement which Congress can accept or reject but not change. There is a credible possibility that the House will not do so, in which case the TPP enterprise will join the World Trade Organization's Doha Round in a zombie half-existence. The Conservative government will then not have to make an impossible choice.

If the Congress acts as it should, the TPP process could quickly enter its last chapter. Canadian negotiators will have to respond to persistent pressure from the US, Australia and New Zealand to tear down the wall of triple-digit duties that enable supply management in Canada's dairy and poultry sectors. Since virtually no information about the real state of the talks has been made public pursuant to a secrecy agreement among all 12 countries, no one can tell how determined the attackers of supply-management are. But it seems unlikely that they will be easily mollified. Protecting supply management may be a task that Canadian negotiators, or any negotiators, cannot accomplish. The threat has already been made by a high Obama trade official to the effect that Canada could be expelled, not exactly over cheese, eggs and chicken, but for declining to accept a core free-trade principle. Of course no country can push another out of the group, but the alternative before any member to accepting conditions negotiated and agreed by all the others is obviously to exit.

Canada, the US, Australia and New Zealand are the agricultural exporters in the group; the others are high-population, high-income net food importers. Export markets for non-agricultural commodities and manufactured products are even more important but have received less attention. Should Canada somehow end up not a party to a TPP agreement, it would lose not just the possibility of future export opportunities, economic activity and employment, not only in agriculture but generally: it would also forsake very large and vital markets it already has, as other TPP exporters obtain tariff-free or low-tariff access and possibly other preferences.

Nobody can blame marketing board interests, especially supply-management farmers, for feeling a bit frantic. Reforms to supply management would not just mean loss or serious constraint on monopoly pricing, but would also make up to worthless the marketing board quotas that confer the right to milk cows and raise chickens. Assured profitability under the system has been capitalized in quota, and the average dairy farmer has as much or more invested in quota as in the cows. The right to sell one kilogram of butterfat a day currently trades for about $28,000 in eastern Canada. Different farms have different quota cost bases. Some farmers own quota inherited from forefathers who obtained it at no cost when the system was instituted. Those who bought in more recent times paid astronomically, but in good faith and in the course of managing their farms according to the prevailing regulatory and economic environment. Since supply management is government-sanctioned, every concept of fairness would be violated if quota suddenly (or even slowly) lost its value through government action.

Perhaps because they cannot think of anything else to do, the marketing boards have mounted big campaigns to build public support. They say the system assures consumers of reliable amounts of high-quality, safe and local food. Food safety and quality claims are patently false because they have nothing to do with marketing systems. Safety and quality standards are set by government for all and would apply equally under any marketing regime. Nor can supply-managed production be said to be local. Centralized processing and the nature of distribution mean that products produced anywhere are sold everywhere, for instance Quebec cheese.

The supply-managed sector will not succeed in creating a groundswell of public support, and even if it could public opinion will have little or no bearing on how the government resolves this. It is a monstrous problem arising from simplistic notions some generations ago of how agricultural prices could be set.

Buying out $40 billion of marketing board quota at public cost is out of the question. But it is even further outside the realm of reason to abandon trade arrangements that would hugely benefit the country (and at least 90% of non-supply-management farmers), nor even to make elaborate concessions adverse to other parts of the economy that may be required to not abandon the TPP.

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It is dismaying to see the outlook for another crop season that does not show any sign of a normally expected response to supply-demand imbalances. When the supply of anything increases to a point that established demand is fully satisfied, its price starts to drop, and continues to drop if supply continues to increase. Lower prices uncover demand that did not exist at higher prices, so consumption starts to increase, at the same time that lower prices reduce the incentive to produce. If the excess of supply over demand gets big enough, the bottom often falls out of prices until a market-clearing price is found. Usually sooner instead of later, supply, demand and prices return to a relationship which makes production viable. Price is where supply and demand meet. Except in very unusual times, the cycle begins again, with producers increasing output to cash in on better prices.

Between the end of the 2013-14 world agricultural season and the start of 2015-16 world wheat prices have declined about 32%, corn 42% and soybeans 29% in American dollars. A food price index maintained by the UN Food & Agriculture Organization covering all food categories is 9.2% lower than a year ago and the lowest in five years. The declines are smaller if expressed in currencies that have weakened over that time, however the largest currency realignments have occurred mostly over the past year, not two or three.

Over the two-year period, according to the International Grains Council, world wheat consumption will increase less than 1%, corn use will be unchanged and soybean demand will increase 5.5%.

No popularly-circulated theory or mathematical model explains this. More importantly, much-promoted and widely accepted ideas about a coming surge in world food demand that is supposed to accompany steady population growth, economic and social improvement in disadvantaged countries and the evolution of an affluent, bigger-spending middle class in mid-range economies that will demand higher-value foods including meat, are simply not holding up. Neither is the notion that food production will struggle to meet future demand. If there actually was structural and substantial demand growth, combined with today's dramatically lower staple food costs, demand should be going through the roof.

However demand growth is persistently slow the world over. The IGC's five-year statistics indicate that aggregate consumption of the three crop groups (food and feed grains and oilseeds) rose exactly 10% since 2012-13, or a compounded annual rate of 1.85% while world population growth was just above 1.1% a year. So the portion of food demand that can be attributed to the betterment of living standards and economic conditions is not even three-quarters of 1% a year.

The epicentre of growth in food demand was supposed to be Asia, where immense populations were being urbanized, more fully employed and better paid. However over the last ten years, instead of rising steadily and rapidly, cereal grain imports by China and other Asian countries have actually declined from 14.4 million tonnes a year to an average of just 6.3 million. The average annual increase in grain consumption by China and India was lower between 2002 and 2008 than in 1995-2001 despite population growth. Per-capita caloric intake in India has fallen significantly since 1990 despite the improvements in incomes and living standards which have occurred more or less as predicted.

Then there is the supply side. Why are the world's farmers growing all they can even as prices collapse? According to break-even calculations for 2015 crops from Iowa State University, in the American corn belt this year it will cost $4.40 to $4.50 to grow a bushel of corn and $10.75 to $11.00 for soybeans. USDA forecasts average farm-gate prices at $3.60 and $9.00. American farm subsidies are not what they were and while some of the loss will be made up for some American farmers, they face cash out-of-pocket losses. Another factor in oversupplying the world wheat market is continuing high output in the Black Sea region where war, hyperinflation and credit system and currency exchange breakdowns appear to be having no effect. Record soybean crops are forecast again for South America where political and economic stresses and infrastructure weaknesses should have capped output before now.

World hunger has been dramatically reduced in the last generation but malnutrition and even starvation are still found. It is not because there is not enough food. It is because such a large part of the world's population is not in a position to make an economic contribution valuable enough to enable them to feed their families.

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The idea of further processing and adding value to agricultural crops near where they are grown, or at least somewhere in Canada, appeals to everyone. Why export low-valued, raw commodities in their most primary states if they can be processed and upgraded to higher forms? Further processing generates economic activity, creates employment and increases exports, not to mention tax revenue and, of course, profit. Transportation costs consume a large part of the value of raw commodities; the lower their value per unit of volume or weight the larger the part paid for rail and ocean freight, which inevitably comes out of what is paid to the primary producer. Processing generally reduces the bulk of a product, so even if transportation is in a higher-cost mode than bulk there is still a saving. Processing by-products, which often have a lower unit value than the original crop or other commodity, can be used locally and do not need to be transported at all.

The only further-processing-export success story Canada has is canola. Domestic processing accounted for 44.5% of production averaged over the last five years and the ratio has since passed half as capacity has expanded. Canola oil and meal exports are approximately 80% of production.

Domestic use of wheat and durum are 21% and 18% of total use. Flour milling accounts for most of that, especially durum, but flour exports (including semolina) are only abut 250,000 tones a year or 4% of total disposition. Domestic use of barley is about 15%, of which 12% is for malting; 300,000 or so tonnes of malt are produced yearly and about 180,000 are exported. Domestic use of oats and flax is under 5% and exports of oat and flax products are too small to measure.

It is perhaps understandable that flour exports have not flourished. Flour does not travel well, or at least as well as wheat, especially in tropical climates. Importing countries have the same motives as exporters to capture processing value in their economies. In the case of wheat and flour, government involvement is still pervasive. Flour milling and use is subsidized in many second and third-world countries, which are thus not likely to import the finished product.

However someone is doing it. World flour trade is around 14 million tonnes a year and is slowly expanding. Some flour exporters can deliver flour to some importers at a lower cost than the importers can obtain the wheat and mill it. Canada obviously is not one of them. If Canada had the same share of flour exports as wheat exports the milling sector would have to be roughly doubled. The US is no bigger, and sometimes smaller, a flour exporter than Canada. It happens that one of the largest exporters is Turkey, which is generally a net importer of wheat.

What then explains the remarkable success of canola processing in Canada? The combined weight of canola oil and canola meal is very close to the weight of the original seed, so there is no evident transportation advantage, unless it is in the fact that canola oil and meal are exported mostly to different destinations (oil goes to Asia in tankers, and the meal much shorter distances to the western-states dairy belt). Oilseed processing technology and equipment is readily available to anyone and investment is not prohibitive relative to the value it can generate. Countries that are big users of oil but small producers of oilseeds can easily import their needs. Why is canola processing for export a booming business while flour milling is not?

If a given commercial or industrial activity does not proceed in Canada there are reasons, but they are not easily identified. There is no lack of ambition or creativity on the part of Canadian businesspeople. The exhortations of government departments and non-government entities that urge Canadian businesses to do better, or to get into exporting, are downright silly. If there is a viable opportunity someone has probably already found it. Cost of capital in Canada is competitive and the mechanisms for accumulating and deploying both equity and debt forms is as highly developed as anywhere. Foreign capital is easily attracted to a politically stable and legally secure environment. Canadian labor is notoriously and stubbornly underproductive and expensive, but labor is not a big component of primary processing of agricultural crops. Taxation in Canada is now as favorable as in the US and more so than in many other places and concessions are made for processing and manufacturing and for small businesses that are available in few other tax jurisdictions.

So what is it?

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It is extremely difficult to reconcile the current state of railroading in Canada with any normal concept of free enterprise and competitive market economics. In turn it is difficult to decide what policies or reforms should be advocated and supported in a space such as this.

Everybody can see what aggressive competition looks like in other industries, especially consumer goods and services, for example cars and cell phones. Ford, GM and two dozen other companies are striving to sell as many cars and trucks as possible, in the process creating better-performing and more durable vehicles in a wide assortment of models which they sell at very aggressive prices. In wireless and wired telecommunications, which are more similar to railroad service than tangible goods, inducements to consumers are bringing better service and increased capability, already more than most people need, at costs which are at least not increasing, and there is no shyness whatever about raiding competitors' customers.

We don't see the same things in railroad service. The western grain belt is divided roughly into north and south rail zones, which overlap very little. In each half shippers are effectively captive to one supplier and the situation would be unchanged if instead of two major railways there were ten. The southern half is served mainly by the CPR and the north half by mainly the CNR. The cost of building track completely precludes expansion by one into the other's territory. Head-to-head competition is possible only in an uneven and narrow band where there is already track of both companies. Only a handful of individual grain elevators have access to track of both railways or a practical choice of which to use. Farmers might have the option of delivering to facilities served by one railway or the other, but the comparative quality of rail service to a delivery point is only one of many factors.

The railways can be sure that they will always get to haul all the grain out of their respective catchment areas. They have no influence over the amount or type of grain produced and not much advance notice of the quantity to be moved or the time frame within which movement must occur. Since grain production often varies widely between north and south, the railways cannot even tell what their market shares will be. So they accept that there is nothing they can do to increase their grain volume, even though it would be very helpful in making more intensive use of their track and equipment. Providers of other goods and services can increase their sales by enlarging the market through attractive new products and more effective marketing, or by capturing market share from their competitors such as by lowering prices or offering better value.

Because of a 100-year suspicion that the railways would charge whatever they wanted from shippers who have no alternative, grain freight rates have been regulated for virtually as long as grain has been produced in the west. Regulation inevitably becomes politicized, and the longer it is in effect the more intrusive it becomes. Rate regulation abolishes free competitive forces of the kind which, for instance, prevent GM from asking $250,000 for a compact car or pickup truck. But it also creates the need for a benchmarks against which regulated rates can be set, and of the several possibilities the criterion becomes the cost of providing the service. In no free market is there a necessary linkage between costs and selling prices. Selling prices are determined by the competitive environment, and reducing costs creates a benefit that accrues exclusively to the supplier. In the grain rail business the idea is strongly entrenched that benefits of cost reductions made by the railways must be shared with their customers and that the railways must continuously reveal their costs so that regulated rates can be lowered if rail costs are better controlled. There is no other class of rail traffic in which this applies. In potash and coal traffic, where shippers are similarly captive to one railway company or the other, cost reductions achieved by and at the expense of the railways fall to their bottom lines.

Both major railways argue, in their submissions to the transportation review and elsewhere, that the revenue cap on prairie grain traffic must be removed if investment in additional capacity that the government and commodity groups are demanding is to be justified. They have not said that the cap should be raised to improve their margins and create better incentives. Politically it is a non-starter. It is for granted that if the cap is removed rates will rise, but it does not seem guaranteed that service would be better.

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More or less everybody knows something about supply management. It is illegal to milk cows or raise chickens in Canada without permission from government-authorized cartels, and such permissions are so restricted and the demand so great that the right to milk a cow quite normally exceeds the value of the cow.

However supply management is not the only example in Canadian agriculture of regulatory tyranny. There is also the statutory grain grading system, which in some respects is more absolute and less defensible than the entangling web of marketing boards.

It is illegal to buy or sell, and especially to export, a lot of a major grain in Canada, including wheat, unless it has been assigned one of the grades established long ago under the Canada Grain Act and regulations. This is known as statutory grading and it is a system found nowhere else in the world. Its roots are in the 19th century, when some flour millers in Great Britain, the first import buyers of Canadian prairie wheat, thought highly of it because they had never before seen a wheat flour that made a good loaf with so little effort. The secret was protein content. To prevent the reputation of this wheat from being sullied by inferior imitations, the government of Canada in 1912 passed the original Canada Grain Act, which created the Board of Grain Commissioners and the framework for the most detailed, intrusive and arbitrary regulation of every aspect of grain trade on the planet, before or since. The Board eventually became the Canadian Grain Commission, which is to this day the grain trade's all-in-one policeman, courthouse and executioner.

Canada has the only system of statutory grain grading in the world. By law, under the grain act, precise specifications are established for wheat and other grains. 'Classes' are created, much like TV program bundles. Each class has its list of exclusive government-approved and designated varieties. Each is also subdivided into up to six grades which also have specified properties. Every truckload and carload of grain must fit into one or another of these class and grade slots. If it falls short in any parameter it is sent down to the next grade with a price penalty, which can reach 50%.

Every time a ship is loaded with grain for export, the process is supervised by a Grain Commission inspector, who also collects samples and grades them. If satisfied that all is in order, a 'certificate final' is issued, which is a guarantee from the government of Canada that the shipment is as represented.

There are two large and growing problems with this system. A government certificate does not eliminate quality disputes between sellers and buyers, which are commonplace in world grain trading, often used by buyers to coerce sellers into cutting agreed prices. The certificate process is largely irrelevant, but it is harmless compared to the costly and completely unnecessary handicap created for the grain trade by the unique Canadian system of statutory grading.

All other grain commerce is conducted on a sample basis. The buyer establishes quality specifications that a given order is to meet, and potential suppliers have the opportunity to fulfill them at least cost, such as by blending different lots or origins. Individual buyers value various quality attributes differently depending on end uses. Advances in milling and baking technology are constantly changing the quality environment, with the aim of producing better goods from least-rated and least expensive wheat. Non-wheat additives compensate for intrinsic quality deficiencies. Most of the wheat in the world, perhaps 70 to 80%, would fall in the lowest grade tiers under Canadian statutory grading, but comprises the great majority of world trade. The Canadian system entails predetermined assortments of quality parameters in arbitrary combinations with no respect or provision for specific needs of individual buyers.

The statutory grading regime has passionate defenders, especially on the dubious notion that it creates a brand aura, like Gucci, and thus a competitive advantage. No one has ever quantified such a benefit and no research has been done to support continuation of these quirky practices. The statutory grading system increases costs all along the grain handling and marketing chain. As these costs are thinly spread, no participant or subsector has a strong incentive to advocate for deregulation, especially against more than a century of mythology. There is a very simple adjustment that could satisfy both advocates and opponents: permit voluntary opting-out from the mandated grading system while retaining it for anyone who still happens to value it.

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While the self-important analysts were speculating over the last couple of weeks that the Bank of Canada might actually lower bellwether interest rates sooner than raise them, the central bank was getting ready to do it. On January 21 it announced that its overnight rate, at which it lends money for extremely short terms (such as hours) to banks, is reduced to three quarters of 1%, from 1%, where it has been since September 2010. In 2010 the rate was raised in four steps from 0%. The central bank reacted to the perceived danger to the Canadian economy of crashing oil prices. Ironically, the crude oil price on the same day rose by $1.31 US or $1.62 Canadian. The Canadian dollar promptly lost another 1.28 cents for a two-day retreat of 2.17 cents or 3.3%.

The commercial bank prime rate was not immediately adjusted and remained at 3%, however rates are the lowest in the lifetimes of most of today's borrowers.

The Bank of Canada has accepted and is perpetuating the notion, along with more or less all other central banks, that low interest rates are necessary to re-stimulate economic activity, combat deflation and prevent a slide back into recession. Interest rates in all major economies have been in their present ranges for four years, yet economic activity and growth remain subdued. Recent Canadian economic indicators, with a time lag preceding the latest exchange-rate decline and oil price drop, are ominous.

For the moment, the lower dollar supports agricultural prices in Canada, makes exports more competitive and discourages imports, It also raises the cost of production inputs. And it also reduces the value of Canadian assets in in international terms. Chiefly because of the halving of world crude oil prices, the aggregate value of Toronto stocks has declined by 5% since its September peak in Canadian funds but 16% in American dollar terms.

Anyone who thinks economic and monetary affairs are caught in a hurricane can be excused. Also last week the European Central Bank resorted to the last-ditch tactic of printing money: creating the artificial asset in the form of central bank cash to buy sovereign bonds, to the tune of 60 billion euros a month. This is called 'quantitative easing', is an invention of the US Federal Reserve (which recently ended the practice after literally printing $1.35 trillion) and is considered a success.

Imagine that you have nice, small business doing a few million a year. You create a subsidiary which issues $100 million in shares. Your company buys them, using a $100-million loan from its subsidiary. On its balance sheet there is a $100 million increase in assets and a $100 million increase in liabilities. If you can find a lender dumb enough, you borrow $100 million to replace the loan from your subsidiary, which you pay off. The subsidiary now has $100 million in cash.

That's how quantitative easing would work in the real world. Obviously it would not work, but central banks don't have the inconvenience of satisfying realistic debt criteria. No one seems to be concerned that QE investments might go bad because if they do they will drop into the bottomless pit of public debt and become an extra charge on the whole population, including on generations yet unborn.

For more than a decade interest rates have been too low to properly reward owners of sound financial assets, the longest period in modern history. It is remarkable that the investment world has adjusted to this as well as it has. Low borrowing costs were supposed to encourage businesses to borrow money and invest it in expansion, but major companies and whole industries are too unsure of the future, so are hoarding massive amounts of cash that produces next to zero return but poses no risk except from inflation. Inflation is sub-basement low because so-called supply-side economics (also known as 'voodoo economics' to the original president Bush) works. The capacity to produce goods and services has expanded almost exponentially, far faster than the ability to consume them, even while demand is aggressively encouraged by easy credit.

Nobody even dares to think about what would happen if historic interest rates were to be restored, either gradually or suddenly, to say a 6% or 8% prime rate. What we have now, worldwide, is a total reliance on cheap, limitless debt, in which the same debt is recycled and replicated many times by central banks, governments and everyone else, creating an illusion of prosperity. Debt is not so much held by owners of assets, as in all previous world history, as by entities which are themselves debtors. Interest rates cannot very well be lowered much more, so this zoony and illogical system had better work.

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