PROVINCE OF BRITISH COLUMBIA

REPORT

OF THE

ROYAL COMMISSION INVESTIGATING THE FRUIT INDUSTRY

(AND INTERRELATED CONDITIONS)

OF THE DISTRICTS TERRITORIALLY KNOWN AS THE OKANAGAN, KOOTENAY, AND KETTLE RIVER OF THE PROVINCE OF BRITISH COLUMBIA

BY

W. SANFORD EVANS
Appointed a Commissioner under the "Public Inquiries Act"

PART II.

Dealing with the Subjects of Production and Marketing under the Terms of the Commission

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To His Honour the Lieutenant-Governor
of the Province of British Columbia.

SIR,—Pursuant to the instructions of the Commission issued to me, appointing me a sole Commissioner under the "Public Inquiries Act," I have made inquiry into the questions of production and marketing of fruit and vegetables in the localities as directed, and I have the honour to submit herewith Part II. of my report on these branches of this inquiry with recommendations.

W. SANFORD EVANS,
Commissioner.

Victoria, B.C., January 15th, 1931.

ROYAL COMMISSION INVESTIGATING THE FRUIT INDUSTRY.

PART II.

PRODUCTION AND MARKETING.

FOREWORD.

By amendments to the "Produce Marketing Act" obtained at the 1930 session of the British Columbia Legislature, powers were granted for important modifications of the marketing system which had been in effect in the Okanagan, Kettle Valley, and Kootenay Districts during the preceding three years. The decision to ask for these changes in the Act had apparently been reached only toward the end of January, 1930, and the new system provided for had not even been in contemplation when I conferred with the growers and shippers during the autumn months. Moreover, the exact form to be given the new system, under the general powers applied for, had not been thought out in detail, but was to be developed in practice during the season.

Under these conditions I recommended to the Government that my report on marketing problems should be postponed at least until the new system could be observed in operation, and that a report on the irrigation problems should in the meantime be received and acted upon.

It was to be anticipated that the new marketing system would be tried out at least for one complete crop-year—and even one full season is too short a test for any system—but as early as the beginning of November, 1930, a movement began to approach the Legislature of 1931 for a change to a different form of system, embodying a somewhat different principle. If the whole position was to be thus reconsidered, it was thought desirable that the results of my examination of the marketing problems of these districts should be made available without further delay.

In the circumstances, an inquiry on the spot into the developments during the present season has not been practicable, but such an inquiry is not essential and could add little of value in view of the clear evidence that the methods adopted this season have not commended themselves to any class among those directly concerned as likely to prove permanently satisfactory.

GENERAL CONSIDERATIONS.

In every marketing problem there are certain fundamental elements, some of which are simple factors, common to all marketing, and some are special to the particular problem. Unless these fundamentals are served there cannot be successful results from any marketing system. Experience has shown they may be served under different types of system, and they may be neglected, or ineffectively treated, under any type.

No marketing system in itself can ensure the satisfactory disposal of the products with which it deals. The form of organization, the laws, rules and regulations, through and under which the products pass out on the way to the consumers, are but a set of tools, the output of which depends mainly upon the intelligence and good-will with which they are used.

Before discussing certain of these fundamental factors in marketing, a few observations of a general character may be offered concerning what have appeared to me to be special features of this particular problem.

SPECIAL LOCAL FEATURES.

Upon first coming into touch with the marketing system and the attitude of mind toward marketing policy in these districts, I was struck with many features that were unusual, in degree if not in kind. Among these may be mentioned the following:—

(1.) The number of organizations of various kinds to serve the needs of a comparatively small population, occupying in total a comparatively small acreage. Even for marketing alone

there seemed to be a great deal of machinery, and when the organizations for other purposes were also taken into account the load of overhead appeared unusually heavy.

(2.) The extent to which faith in and reliance upon system, or form of organization, in marketing seemed to govern the thought of a large section of the people. A struggle over ideas about marketing methods was in progress and engaging a large share of public attention. For lack of a better term, this may be called market politics, as distinguished from market economics or market business.

(3.) The elaborate and complex character of the system. To one reading through the "Produce Marketing Act" and examining the files of regulations under it, the question must suggest itself whether all this mass of powers, reservations, exemptions, prohibitions, and detailed directions can relate to that world-old operation of offering in exchange for other goods the natural fruits of the earth.

(4.) The readiness to change or assent to changes in the marketing system. In the interests of the business affected any methods adopted should be given a fair test and changes should be made with care. A marketing system can prove itself only by meeting a cycle of conditions, and cannot be finally judged by the conditions of one year. As to what system is the best, there may be differences of expert opinion and much uncertainty, but there can be little doubt that the worst of all marketing systems is that which is changed every year.

(5.) The degree to which concern about the domestic market has influenced system and policy. Of apples, the principal product of these districts, Canada produces a very large surplus and export business is really the critical problem. The "Produce Marketing Act," which expressly excludes export business from control, was otherwise largely modelled on Australian and New Zealand precedents, in which no such exclusion is found. In New Zealand, by vote of the growers, the control system was put into effect to try to help the export business and was not applied to domestic trade.

(6.) The almost complete absence of primary merchandising in these districts. With partial exceptions in the case of one or two vegetables and occasional transactions in fruit by one or two individuals, there was no buying direct from the growers. Purchases by canners and other processers are also, of course, an exception, but these purchases are not a general competitive factor and do not come under the system of control. It is a characteristic of co-operative selling organizations that members deliver their products to be handled and agree to accept their proportion of the net amount that may be realized, but in these districts all private packers and shippers operated pools along somewhat similar lines. There was thus almost universal consignment by the growers, which is unusual. Co-operatives are found in a great many lines of business and private firms operating pools in competition with co-operatives are not uncommon, but men who are prepared to buy for cash are normally present and active in the same field. I had never before come into contact with a situation in which producers carried virtually all the risks to as remote a marketing stage.

(7.) The generally entertained conviction that shipping on consignment was the chief menace of the industry, and the disposition to judge control measures primarily by their probable effectiveness in preventing shippers from consigning, and only secondarily by their effects in other directions. Growers delivered on consignment but feared consignment by shippers. A fear of consignment so active and almost universal among producers is unusual. Shipping on consignment has a place in business, but its risks are so well known they are ordinarily assumed only occasionally or to a very moderate extent. I found the shippers, both co-operative officials and private firms, to be intelligent, keen business-men, evidently with a knowledge of their trade and quite up to the average standard in the business world. It was not clear at first sight why there should be so great a dread lest these men, although performing only an agency function and not having their own capital invested in the fruit, should, unless forcibly restrained, sacrifice the interests of their clients by indiscriminate consignment. Such a situation required a historical explanation.

(8.) The great influence on policy and methods emanating from one phase of the business, the exercise of the packing function. All local co-operatives consisted of growers organized to pack, and ultimately through a common agency to ship, and all principal independent agents were first packers and then shippers. The interests of efficient management of a packing plant

may not necessarily coincide in all respects with the interests of producers, who were not represented in the general system in any organized way.

HISTORICAL CAUSES.

Inquiries as to the historical explanation of the more outstanding of these special features elicited from all classes a reference to conditions that made their appearance in the year 1921 and culminated in 1922. In the season of 1921–22 returns to growers were unsatisfactory, and for fruit delivered to shipping organizations in 1922–23 large numbers of growers received no net cash returns at all, but were billed for a balance of costs. It was a financial disaster.

Recognizing the seriousness of the situation, local meetings of growers began to be held in November, 1922, and a general convention of growers assembled at Kelowna at the beginning of December.

CENTRAL SELLING PROPOSED.

This convention agreed upon a resolution, in which the belief was expressed that "the chief cause of the present deplorable condition is to be found in the existing competitive system of marketing," and which instructed a committee to formulate a plan for a Board of Control to operate for the marketing of the 1923 crop, and also a plan for a Central Selling Agency, under the control of growers, to go into effect in 1924. The Central Selling Agency was regarded as the permanent solution, but the possibility that details could not be worked out before the next crop was harvested led to the decision to create at once a temporary Board of Control. Each of these systems was to be based upon voluntary contracts rather than upon powers conferred by legislation.

Among the instructions to this committee was that before proceeding with the formation of the Board of Control it should endeavour to arrange "a conference with Dr. Macklin, Mr. Sapiro, or any other recognized expert." At conferences later held, Dr. Macklin, who was Professor of Agricultural Economics at the University of Wisconsin, and Mr. Sapiro, each declared both plans suggested, a Board of Control and a Central Selling Agency, to be "unsound and unworkable."

A CO-OPERATIVE SUBSTITUTED.

They advised the formation of a general co-operative association on the lines of what is commonly called the California plan. In view of the popular impression created by this advice and by public addresses by Mr. Sapiro, the committee felt justified in proceeding to formulate a plan along these lines rather than on the lines decided upon at the convention, and at a subsequent convention this plan was adopted and the Associated Growers of British Columbia was in due course organized.

In addition to these main movements, there were incidental effects from the happenings of those years which still remain factors to be taken into account. The opinions formed at the time, whether correctly founded or not, are among such factors. One incidental effect was the practical disappearance in 1922 of the primary merchant function—that is, of buying direct from growers for cash—as a competitive element in the fruit business. Another effect, in the nature of mental attitude, was the conviction, not only that consignment by shippers was a leading cause, rather than a mere accompanying aggravation, of the difficulties experienced, but that it was a practice shipping agents would repeat unless forcibly restrained.

BUYING FROM GROWERS DISAPPEARS.

For several years prior to 1922 the marketing agencies had consisted of a co-operative association, the Okanagan United Growers, controlling something over one-third of the tonnage, and a number of independent merchants and independent agents. All principal shippers were members of a Traffic and Credit Association for conference upon prices and selling policy. Over some details, it is said, strained relations arose in 1921 between the co-operative and certain of the independent shippers, and it became understood that a very aggressive competition would be waged in the following season, and preparations were made accordingly.

Facing this prospect, those who had been operating as primary merchants decided it would be unsafe for them to buy outright from growers in 1922. The co-operative and the independent

agents would be handling fruit on consignment from growers to whom they need account only for what was finally realized, and might, in a fight, accept prices that bore no relation to the buying-prices that had seemed reasonable when the merchants had acquired their stocks. All shippers thus began to operate pools and the primary merchant function, except in sporadic instances, has not returned to these districts, and the system of control since 1926 has been unfavourable to such return.

RECKLESS CONSIGNMENT.

The anticipated struggle eventuated and took the form of a fight for the Prairie markets. The supply was large relative to demand on the Prairies and the rival agents fought each other at every point, matching shipment with shipment. Firm sales before shipment could not be effected to fit these tactics and consignment became the order of the day. This tended to make jobbers and even retailers on the Prairies afraid to buy and willing to accept shipments only for sale on commission. In overloaded markets much of the fruit was finally disposed of only at very low prices or remained unsold and was lost. Aggregate returns were often insufficient to meet packing, transportation, and agency costs.

This is the current tradition about what happened in 1922 in the matter of consignment. The story of marketing folly it presents seems almost incredible, and may or may not be accurate or well-balanced history, but accounts for the very real fear of consignment which is still one of the most powerful motives in these districts.

It is quite clear, even from this brief summary of events, that there emerged from the experiences of 1921 and 1922 many positive ideas which, unquestionably, have ever since moulded the history of market discussion and action. There is evidence that even in 1922 opinion was far from unanimous either on principles or methods, but what prevailed with a majority was, in the emergency, acquiesced in by many others and comparatively few openly opposed or stood aloof.

ASSOCIATED GROWERS ORGANIZED.

By the summer of 1923, signatures to a five-year contract with the new co-operative association, the Associated Growers of British Columbia, had been appended by some 85 per cent. of the growers. The co-operative form of marketing organization makes a strong appeal to a substantial proportion of persons in every class, but there is normally also an important proportion who, temperamentally or on business judgment, prefer other methods. The proportion of signatures in 1923 was exceptionally large.

What was expected of the new co-operative meant that it would be subjected to a very severe test. It was to solve the problem of prosperity and prevent the recurrence of conditions such as were experienced in 1921 and 1922. The general opinion was that the right system, if found, could accomplish these desirable results. The "deplorable conditions" of 1922 had been attributed to the "competitive system," as such, and not to the failure of individuals to meet successfully, with the facilities then available, an unusually difficult supply and demand position.

The new system was expected in a large measure to control prices, for the Traffic and Credit Association had been condemned on the ground that it had absolutely failed to control prices, and among the purposes stressed by Mr. Sapiro had been the winning of "the right to a say in the price for the fruit you toil to raise." The way was not likely to be made any easier for the new co-operative by the fact that it had not been the solution originally decided upon by the growers. There had been a smaller co-operative in existence which had been involved in the troubles of 1922 and local thought had first turned toward something different in form.

A BOARD OF CONTROL.

After three years of operation it was found that independent shipping agencies had increased in numbers and clientele, although a clear majority still adhered to the co-operative. Developments had not satisfied the expectations. The crops of 1924 and 1925 had been only moderate in size, but when a very large crop appeared in 1926 there was no confidence that it could be safely handled under the system as then constituted. The report of Mr. Lewis Duncan in 1925 on his investigation into the fruit jobbing trade had greatly disturbed the public mind, the bogey of 1922 also was invoked and opinion swung to the emergency proposal of that year, a Board of

Control. Rather than attempt to organize this system by contract, the easier way of borrowing powers from the State was followed. This system of control by a board has been in effect from 1927 to the present date.

The views of the convention of 1922 had regained ascendency. The characteristic of these views was extreme centralization of administration, including selling. Pressure from this body of opinion has been evident since 1927 in the trend toward increase in the powers of the Committee of Direction and more detailed administration by that Board. At the same time this body of opinion was not satisfied with a Board of Control system. Representations were everywhere made to me by those of this mind in favour of a system of central selling, which had been the ultimate objective of the 1922 convention. These views have taken form during the past few months in a proposal for compulsory Central Selling as a substitute for a Committee of Direction.

FUNDAMENTAL ECONOMIC FACTORS.

The economic elements of the problem, as distinguished from the ideas about marketing methods, should now be examined. The apple problem, as affecting the largest volume of produce and as in many respects the most difficult, may be studied by itself.

The first matter to be understood is the world position in respect to apples. What is the world background, the world setting, for the particular British Columbia problem? In bare outline, the facts are as follows:—

WORLD APPLE CROP AND TRADE.

The production of apples is widespread throughout the temperate zones of both hemispheres.

Of the world total, the United States produces not far short of one-half. France is the second largest producer and Canada third.

The principal surplus producing countries, approximately in the order of the average size of surpluses during recent years, are the United States, Canada, France, Australia, the Netherlands, Belgium, Italy, Rumania, and New Zealand.

Of the total exports of these countries in the five years, 1923-27, the United States contributed 49.05 per cent. and Canada 15.49 per cent. In proportion to the size of its crop, Canada has the largest surplus of any country, although Australia is much in the same position.

Apples find a market in almost all countries, the customs returns of the United States showing exports to some eighty-two different countries. The United Kingdom and Germany are, however, the great importing markets. Just before the war Germany was importing more than the United Kingdom, but since the war only about half as much. In the years 1923-27 these two markets absorbed a quantity equal to over 80 per cent. of the aggregate exports of the principal surplus countries mentioned above, the share of the United Kingdom being 56 per cent. and that of Germany 28.3 per cent.

CANADA'S PRODUCTION AND EXPORTS.

Canada's total production of apples and its volume of exports have remained at much the same average level for a great many years, but changes have taken place in the distribution of production among the Provinces. The increase in British Columbia has been accompanied by declines in other Provinces, particularly in Ontario.

Statistical records for Canada as a whole are not satisfactory. Prior to 1919 estimates were compiled for total orchard production, but the Dominion Bureau of Statistics has since that time made computations only of the "commercial" crop; that is, of the quantities of apples marketed in the fresh-fruit trade. The United States issues figures both for orchard production and commercial crop and in addition for fruit processed.

In official statistics in both countries a barrel of apples is taken as equivalent to 3 bushels, or to 3 boxes. In the figures that will be used in this report quantities will be expressed in boxes, as the familiar unit in this Province, which will be understood as to be the same unit as the bushel and one-third of a barrel.

Estimates by the Dominion Bureau of Statistics of the commercial production by Provinces since 1919 are as follows:—

PRODUCTION COMMERCIAL APPLE-CROP FOR CANADA, 1919–29.

Province.	Ontario.	Quebec.	New Brunswick.
	Boxes.	Boxes.	Boxes.
Year 1919	2,636,580	211,500	120,000
„ 1920	4,865,400	264,000	90,000
„ 1921	2,655,195	105,600	99,000
„ 1922	3,912,750	423,117	90,000
„ 1923	2,934,900	126,933	75,000
„ 1924	2,054,430	213,525	93,750
„ 1925	2,850,420	212,700	120,000
„ 1926	1,720,800	334,800	90,000
„ 1927	2,020,500	313,800	84,000
„ 1928	1,683,900	317,850	66,000
„ 1929	2,313,150	374,000	66,000
Totals	29,648,025	2,907,825	993,750

Province.	Nova Scotia.	British Columbia.	Canada.
	Boxes.	Boxes.	Boxes.
Year 1919	4,800,000	2,235,900	10,003,980
„ 1920	3,480,000	1,513,620	10,213,020
„ 1921	6,108,195	3,162,449	12,140,439
„ 1922	4,481,556	2,761,200	11,668,623
„ 1923	5,049,990	3,330,000	11,515,923
„ 1924	3,828,675	2,676,090	8,866,476
„ 1925	2,868,180	2,859,060	8,910,360
„ 1926	2,782,110	3,935,400	8,863,110
„ 1927	2,776,500	3,238,500	8,431,800
„ 1928	3,267,000	4,373,160	9,707,910
„ 1929	4,527,000	3,538,101	10,828,251*
Totals	43,969,206	33,633,480	111,149,892

* Estimated production.

POSITION IN BRITISH COLUMBIA.

In this general setting the particular position in British Columbia may now be examined in a little more detail.

In the accompanying diagram the apple-crops of this Province from 1913 to 1930 are represented. Approximately 92 per cent. is grown in the districts dealt with in this report. The figures used for this diagram are those issued by the Provincial Department of Agriculture.

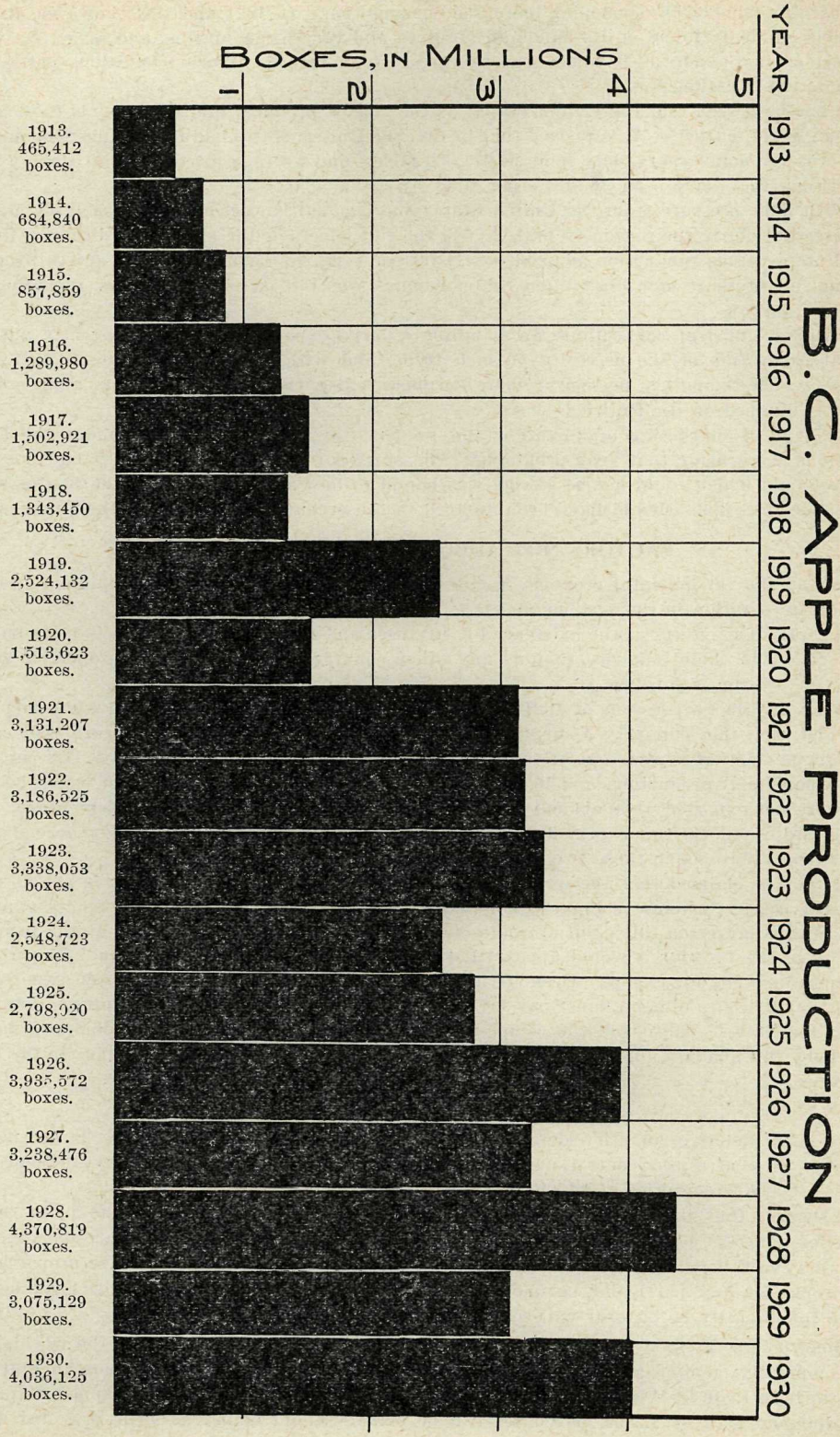
The first thing to be noted is the general upward trend of production. The second outstanding feature is that the period as a whole falls naturally into two sections, the dividing line running between the years 1920 and 1921. Prior to 1921 the trend of production, with seasonal fluctuations, was rapidly upward, but, except in the year 1919, the total quantities were comparatively small. In 1921, however, production leaped up to a new level which has ever since been maintained with a more moderate tendency toward increase.

For the six years, 1914–20, the average crop to be marketed by British Columbia was 1,505,327 boxes; for the six years, 1921–26, it was 3,156,350.

If reference is made to the table on a preceding page, it will be seen that the total commercial production in Canada in 1921 was the largest in the whole period reported and that production in 1922 was the second largest.

SUPPLY IN 1921 AND 1922.

The change in the problem confronting British Columbia marketing agencies in 1921 and 1922, as created by these changes in quantities, was revolutionary. With an average of only 1,500,000 boxes during the preceding six years, no serious difficulty had been experienced in disposing of the great bulk of the crop in the domestic market. The attractiveness of the graded and packed apples of British Columbia, and the accessibility of the large Prairie market, had enabled this Province to extend its domestic business, partly at the expense of the other Provinces


B.C. APPLE PRODUCTION
BOXES, IN MILLIONS
1
2
3
4
5
YEAR
1913
1914
1915
1916
1917
1918
1919
1920
1921
1922
1923
1924
1925
1926
1927
1928
1929
1930
1913. 465,412 boxes.
1914. 684,840 boxes.
1915. 857,859 boxes.
1916. 1,289,980 boxes.
1917. 1,502,921 boxes.
1918. 1,343,450 boxes.
1919. 2,524,132 boxes.
1920. 1,513,623 boxes.
1921. 3,131,207 boxes.
1922. 3,186,525 boxes.
1923. 3,338,053 boxes.
1924. 2,548,723 boxes.
1925. 2,798,920 boxes.
1926. 3,935,572 boxes.
1927. 3,238,476 boxes.
1928. 4,370,819 boxes.
1929. 3,075,129 boxes.
1930. 4,036,125 boxes.

and partly, no doubt, by developing increased consumption. In 1921 and 1922, however, British Columbia suddenly found on its hands an absolute and very large surplus, and at a time when the surplus in Canada as a whole was the greatest on record. World conditions entered to dominate the situation.

It has been seen that the United States, as the largest producer and exporter, is the leading factor in world markets. It happened that in 1921 the United States had the smallest commercial apple-crop for many years, only some 64,671,000 boxes, and average prices in that country were higher than they have been at any other time.

With light pressure from the United States and competitive prices on a high level, British Columbia did not in the season of 1921–22 feel the full effects of the altered conditions. But in 1922 United States production jumped nearly 50 per cent., to 95,835,000 boxes, prices dropped, and the full pressure of a big United States surplus was felt on world markets, including the Canadian market.

Without sufficient connections for handling a large export trade and apparently with no general realization of the necessity of such trade, and with utterly inadequate facilities for storage, which is another necessity where surpluses exist, the British Columbia apple-crop of 1922 was dumped on the Prairies.

No type of marketing organization and no rules or regulations could, under the above conditions, have made that year profitable. The surplus for which new markets had not been prepared, and which could not be stored, was bound to be a loss, but to keep the loss as small as possible the apples should have been dumped in the orchards instead of on the Prairies.

FACTORS NOT ADEQUATELY RECOGNIZED.

Among the fundamental economic factors the following have not, in my opinion, received adequate recognition in the systems and practice in these districts:—

(1.) The effects of the existence of surpluses and the fact that Canada is more subject to their influence than is any other country, because a larger proportion of its crop is surplus.

What are the real lessons of 1921 and 1922? Are they not object-lessons in what surpluses mean and what they can do? A surplus cannot be left unprovided for or it will ruthlessly crush.

Canada's actual exports out of the crops from 1921 to 1929 have represented 41.8 per cent. of its commercial production, and if allowance is made for apples that went to waste because they were not exported, it is evident that Canada's surplus has exceeded this percentage. The United States, in the same period, exported only some 13 per cent. of its commercial crop. The radical difference in these two positions will readily be appreciated.

It may be claimed that the exportable surplus of British Columbia apples is not as great as 41 per cent. Customs returns do not distinguish the provincial origins of apples exported and accurate figures on this point are not obtainable, but from figures given me by the principal shippers in the Interior it would appear that in the last two or three years about 25 per cent. of shipments went for export. Even if this represents all that ought to have been exported, it shows that British Columbia must pay far more attention to the problem of surpluses than does the United States. Moreover, the competition British Columbia meets in the domestic market from Eastern Canadian apples is influenced by the still higher percentage of surplus in the other Provinces.

HOW PRICES ARE MADE.

(2.) Relative quantity determines price-levels. Where quantities are large, neither centralized control nor agreements among sellers can materially influence the average price at which a crop will move.

I suggest that it may be dismissed from the mind that consumers in the mass can be compelled to accept a price dictated by producers or their agents. Every man places comparative values on the things he desires and will not continue to pay more than a certain proportion of his income for any particular commodity. Beyond a certain comparative price-level he will reduce the quantity he buys or will seek a cheaper substitute.

Quantity operates on prices in somewhat the following way: There are in the world, or in any community, a number of persons with incomes large enough to enable them to gratify a wide range of tastes. Whether a loaf of bread is 5 cents or 25 cents, a box of apples $2 or $10, or a diamond $500 or $2,500, purchases can be made without embarrassment provided desire

exists. If the quantity offered at any time is sufficient only to meet the demand from this class of consumers a high price in relation to production costs can be secured.

As soon, however, as the supply becomes too large for this class alone, a second class of consumers must be reached who must buy with more discrimination, but may still pay very profitable prices. A supply too great for these two classes must seek a third class, in which the scale of expenditure is lower and relative values are more carefully drawn. So it goes on from class to class, until finally, if the supply is great enough, a class must be brought in to which even the expenditure of a few cents must be carefully decided upon.

The price necessary to enlist consumption from the last class that must be reached becomes the general market price of the commodity, whether that may be above or below the cost of production.

Concentration of selling cannot alter the essentials of this process; for even a monopoly can secure monopoly prices only so long as the supply is restricted to the demand of a limited class.

Foodstuffs are basic necessities of life, but there are so many things that may be eaten and so wide a range between what the body really needs and what may be bought and used, or wasted, that no one variety of foodstuff can compel a price out of relation to supply. Fruits are not regarded by all consumers as among the most necessary foodstuffs, and there are many fruits, and apples, even under monopoly control, would have to find their price-level in relation to quantity.

COST OF PRODUCTION.

(3.) Under competitive conditions, production costs became a decisive factor in success. To the extent to which costs are reducible they form an absolutely basic problem for producers.

In the domestic market British Columbia meets the competition of apples grown in other Provinces as a side-line of general farming or gardening, the main dependence of the producers being upon other crops, and also of apples grown by those who depend upon orchards but do not have to bear the heavy costs of irrigation. British Columbia incurs much more expense than the other Provinces in the grading and packing of its apples.

In so far as this latter cost, by increasing their attractiveness, makes the apples more saleable and able to command a premium, it creates its own return and is no handicap, but up to a certain point a positive advantage in competition. The test of this expenditure must, however, be the increased price it brings and the wider sale it makes possible. Where these results are not commensurate with the cost, the industry is carrying an unnecessary burden, and it is my opinion that the tendency has been to overelaborate grades and overdo wrapping and packing.

However this may be, it cannot be expected that these extra expenditures will much more than earn their own return, and to meet the heavy costs of irrigation, which are not borne elsewhere, British Columbia must look to the larger yield per acre which is possible under irrigation in these districts.

In the export market, where its surplus must go, British Columbia meets Eastern Canadian apples and those of many other countries grown under all kinds of conditions. Its most direct competition is with the boxed apples of the State of Washington. British Columbia must be prepared to meet the prices at which Washington can sell. As similar factors of cost exist in both territories, the issue must rest on comparative yields per acre. What are the facts?

YIELD PER ACRE.

Annual returns in British Columbia are not complete. From such figures as I had before me, an average yield per acre of very little over 200 boxes of apples per year was indicated. The Provincial Horticultural Branch, however, estimates average yield at between 240 and 250 boxes, and this may be accepted. For the Wenatchee-Okanogan District in Washington the average yields in the four years, 1925–29, was 419 boxes per acre. It is true that these are the highest yields in any large district in the United States, but the Washington State average is much higher than that of British Columbia.

Comment on these figures is unnecessary. The additional cost involved in thinning, picking, and hauling a 400-box crop as compared with a 250-box crop is small, and a price that would be below cost in the latter case might yield a very satisfactory return in the former.

In the British Columbia valleys there is land as good as any in the United States, the climate is as favourable, and there are many orchards as well tended and as prolific as any across the border. But there are too many orchards in British Columbia which, because of inferior soil, too little water, wrong selection of varieties, or for some other reason, are producing uneconomic yields. No marketing system can save the man whose yields are not up to the necessary standard, and at the same time his unprofitable fruit increases the difficulties for all other growers by adding to the total quantity for which markets must be found.

SHOULD DEAL CONSTRUCTIVELY.

In the section of my report dealing with irrigation I recommended that a constructive attitude be adopted toward this matter. Deficient water-supply is among the causes of unsatisfactory yields, and I recommended that all practicable steps be taken to increase the water-supply and then the problem be squarely faced of cutting out inferior acreage and retaining in cultivation only the acreage that could be adequately served with what water was available. In the same way I would now stress the vital importance of dealing constructively with all other causes of low yields.

To show what may be accomplished when conditions and methods are right, it may be pointed out that average yields in the Wenatchee-Okanogan District by four-year periods have been as follows: 1914–17, 199 boxes per acre; 1918–21, 272 boxes; 1922–25, 356 boxes; 1926–29, 419 boxes.

The needs of the situation in Brititsh Columbia in this respect are realized by many, if not by all growers. I asked one successful grower for his conclusions on the general fruit problem. The conversation took place in his orchard, where he was picking apples, and he was standing with one foot on the first step of the ladder from which he had just descended. His answer was: "In my opinion nearly all the discussion starts one rung above the ground. I believe the solution of our problems is to be found right here in the orchard."

ADJUSTING SELLING-PRESSURE.

(4.) Selling-pressure must be reasonably distributed according to the nature of demand. Otherwise the problems of temporary surpluses are added to the problem of a general aggregate surplus.

Consumption of the world's staple commodities, and particularly of foodstuffs, tends to be uniform throughout the year. There are seasonal preferences, but even in shorter periods consumers do not accommodate themselves to glut followed by famine. What consumers may be glad to eat in eight months, they will be unable to eat and will refuse to buy in three months.

Nothing struck me more forcibly on my first contact with marketing conditions in these districts than the extreme crowding of apple shipments into the space of a few weeks, as disclosed by the official figures of movement. As, under the control system, firm sales must be made before shipment, this meant that sales were being pressed in this extreme manner.

The marketing curve during the two crop-years, 1927–28 and 1928–29, is represented in the accompanying diagram. The massiveness and sharpness of the thrust, with the spear-head in November, must, it would seem, break any market.

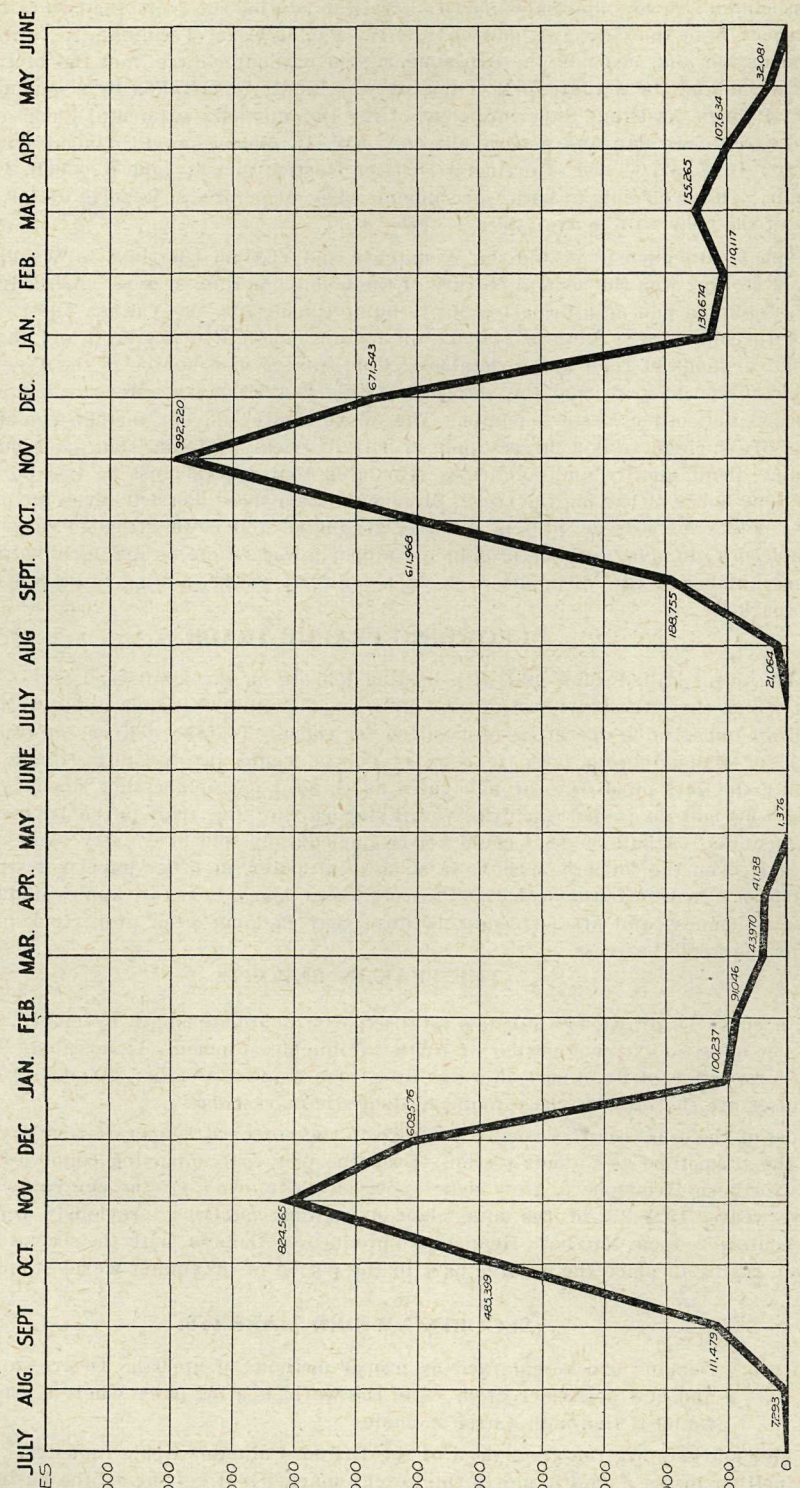
Even after allowance is made for a natural peak in purchases by consumers in the Prairies, due to the fact that farmers will take advantage of the period before heavy frost to lay in moderate stocks at home, concentration of the movement seemed excessive. There is a natural curve of marketing apples on the Prairies, which can be discovered by experience, and a surplus pressed for sale at any stage outside the line of that curve must have a depressing effect on prices.

COLD STORAGE.

This position raised at once the question of storage. I found that, with the exception of three small plants in the Okanagan owned by the Associated Growers, there were no cold-storage facilities within the districts themselves, and, what was even more important, the policy of storage, whether at home or at strategic points in outside markets, was not receiving the practical consideration its importance seemed to merit. There was no definite knowledge of how long the different varieties of apples could be kept in good saleable condition.

In these circumstances I suggested that an experiment in storage should be at once made for the purpose of gaining information and of directing thought to the policy of storage.

B.C. APPLE SHIPMENTS BY MONTHS.



Associated Growers and Sales Service agreed to provide the fruit, the two railway companies to transport it to the Coast without charge, the Pacific Coast Terminals to furnish the storage accommodation and assist in the experiment, also without charge, and the laying-down of the specifications and the actual work of testing was kindly undertaken by a committee consisting of R. C. Palmer, Assistant Superintendent of the Dominion Experimental Farm at Summerland, who acted as chairman and general director; W. H. Robertson, Provincial Director of Plant Industry; G. E. W. Clarke, Provincial District Horticulturist; and W. Coell, Dominion Fruit Inspector. Other officials of both Governments also co-operated. Reports by Mr. Palmer on the results of the tests will be available.

When I subsequently visited the Wenatchee and Yakima Districts, in Washington, I found that cold storage was the central feature of the whole handling system. As early as 1922, when British Columbia had no alternative but to dump its surplus, the Yakima District had equipped itself with cold-storage facilities capable of holding one-half of its crop and the capacity now is 10,500 car-loads of fruit and vegetables. Cold-storage warehouses in the Wenatchee District will hold 6,500 car-loads and the shippers of this district make extensive use of cold storage at Chicago and other Eastern points. The above figures do not include common, frost-proof storage, of which there is a large supply in both districts. I found that some buyers who were particular about quality and conditions stipulated that apples must be in cold storage within twenty-four hours of leaving the tree. Shipments from these districts, even including shipments to other points for storage, present a better graduated and more extended curve than do those from British Columbia, and one prominent shipper informed me he regularly shipped every year the same number of cars of apples each week for forty weeks, aiming to keep his brand always on the market.

CROWDING PRAIRIE TRADE.

When, later still, I conferred with leading jobbers on the Prairies, I was advised that the rate at which they were expected to take delivery of British Columbia apples in the rush period created an undesirable operating proposition for them. To take delivery at provincial storage centres for redistribution later to country points would involve unjustifiable costs, and to distribute the cars on direct through rates as shipped meant pressing stocks on country customers, who had no proper facilities for taking care of the fruit, often beyond the limits of sound business. A balance that could not be immediately sold at country points frequently had to be carried on the jobber's account in some local cellar, or other imperfect storage hired for the purpose. In retail stores on the Prairies I saw many boxes of apples displayed that had lost their firmness and attractiveness because they had not been properly kept. This is not good for the apple business.

THE PEAK IN EXPORTS.

If a curve be drawn of Canada's total exports of apples month by month, a peak similar to but not quite so extreme as that of British Columbia shipments is revealed. Canada crowds a large proportion of its export offerings into three months, October, November, and December. The causes are the same as those found in domestic marketings.

Most of the apples in the world are grown in the northern temperate zone and are harvested about the same time as Canada's crop. Even the principal importing countries, which are all in the Northern Hemisphere, grow some apples of their own. Of the aggregate exports during the five years, 1923–27, of the nine chief exporting countries, previously referred to, over 91 per cent. were from Northern Hemisphere producers. Canada, with the second largest surplus, has been trying to place the greater part in the period of maximum world supplies.

SECURING WIDER MARKETS.

(5.) Demand can be enlarged by proper methods of appeal. Desire can be stimulated and new desires created. And the world is a big place where a great deal may be found if thorough search is made.

Wider markets are the great need of the British Columbia apple industry. My impression is that neither in the domestic nor in the foreign market is it getting all the business obtainable. General advertising and publicity is not consistently employed and it is always possible for salesmanship to be keener and more enterprising.

So far as advertising, publicity, and educational campaigns are concerned, Associated Growers has apparently been doing more than other agencies. Where there are only agencies working on commission and concerned to return to their clients as much as any other agent, initiative in spending money on publicity is hardly to be expected. The growers are the principals, and in their own organizations or in joint conferences with the trade they should undertake to see that a sound policy is worked out and followed.

With regard to foreign markets, how is it that the United States sells to eighty-two countries and Canada only to forty-three countries? In the five years, 1923–24 to 1927–28, inclusive, Canada shipped 90.9 per cent. of its exports to one country, the United Kingdom, which is a dangerous dependence on one market. In the same period the United States sold almost twice as many apples to the United Kingdom as did Canada, but this represented only 66.7 per cent. of its exports. So far as I could learn in Wenatchee and Yakima there was no attempt to confine trade with foreign countries to any one method of handling, and certainly no special governmental assistance was received.

The German market has not been open to Canada on the same terms as to the United States, because Canada is on the maximum-tariff list. If it is ever considered wise national policy to discuss tariff readjustments with Germany, the fruit schedules should be treated as very important. In the last five years, while Germany was absorbing over 28 per cent. of all apple exports of the principal exporting countries, including Canada, this country sold less than 1 per cent. of its surplus to Germany.

Then, the world's population is increasing by over 20,000,000 persons per year and apple-eating countries are getting their share of the increase, and the amount of business done in any one year should not be a standard with which to be content for the future.

THE MOVEMENT TOWARD CONTROL.

Owing to recent developments it is the present position and the decisions to be made within a few weeks that are of most immediate concern. For this reason no complete analysis of the systems in effect during the past eight years need be undertaken, but attention may be confined to those points which are of permanent interest.

In 1922 the expressed desire of a majority was to get away from the "competitive system" of marketing then in effect, and yet by 1926 a system similar in all essentials was again in existence.

The competition in both these periods was, however, of so partial and restricted a character that it was not representative of what is known as the competitive system. It was competition confined to a single class of market operators, commission agents. The merchant, the man who buys to sell again, who is the oldest and apparently the most natural of all market operators, was not present and did not come into direct contact with growers at all.

Producers had no competitive alternatives, but must all agree to carry the marketing risk and take what was left at the end of the season. Their only choice was between delivering their fruit to a co-operative, which would deduct all its operating costs and out-of-pocket expenditures before making returns, and an independent, who named a fixed cost for packing and negotiating a sale, but would deduct also whatever out-of-pocket expenses he might incur. In the period I have examined the British Columbia fruit industry has not had any experience of a fully operating competitive system.

REAL COMPETITION.

By contrast, I found such a system in full effect in Wenatchee and Yakima. There growers have many alternatives. They may contract with any one of several co-operatives, or deliver to commission agents under various types of agreement, or they can sell outright while the fruit is still on the trees, in the orchard after it is picked, at a packing-house door, or in any other position. One grower told me he was last year going to store a big part of his apple-crop and sell later in the season.

The way is open to new merchants or agents to enter this field. A Canadian firm, domiciled in Canada, can on application secure a Federal licence to operate in either interstate or export fruit trade, and I have seen documentary records of substantial export business in Washington apples done by Canadians from headquarters in Canada, who said they would have preferred to fill their orders with British Columbia apples, but had not been able to conclude necessary

arrangements. And the Wenatchee and Yakima Districts are well satisfied with their system. On this point I questioned growers and every class of market operator. Incidentally, consignment by shippers is not regarded as a menace by any class because it has never assumed dangerous proportions.

DIFFERENCES IN THE UNITED STATES.

That care must be exercised in drawing inferences from experience in the United States to be applied to British Columbia should be recognized. The domestic market in the United States is not only very much larger than that in Canada, but it is, partly in consequence, more highly organized. In the one respect of possessing open competitive markets, auction markets, at centres like New York and Chicago, which can be successfully conducted only where many bidders will appear, the United States has a method of selling and a test of prices which do not exist in Canada.

Nevertheless, developments in the fruit trade in the United States must have great significance for Canada and the market in this country will grow and will require suitable organization. Washington State also has had a little longer experience than British Columbia and never encountered as extreme a crisis in relative quantities as British Columbia met in 1921 and 1922.

If an important field is legally open, more than one activity will develop within it. Human nature being what it is, people will not all agree that any one method or institution is best. Where there is no legal compulsion, diverse and competitive activities are natural and inevitable. Either the principle of competition must be accepted and effort directed toward assuring the soundest and most useful kind of competition, or competition must be forcibly prevented.

ATTEMPT TO FORM SINGLE AGENCY.

In 1923 an attempt was made to substitute for the competitive system one all-embracing co-operative association. Under stress of the conditions at that time many signed contracts who were not naturally attracted to the co-operative form of organization, but a small, though not inconsiderable, minority did not sign.

It is no reflection on the co-operative or its management that it did not even retain the strength in numbers with which it started. To have held that strength or increased it, a fulfilment of all the extravagant hopes entertained at its inception would have been required.

Actual or potential competition must always be faced by co-operatives, for the very name implies voluntary association, a right to contract or not to contract, which means freedom to adopt some alternative. If compulsion is introduced there is nothing left that can be called co-operative.

LIMITED COMPETITION REAPPEARS.

By 1926 a number of independent packers and shippers had become established in business, but, with insignicant exceptions, only as commission agents. In March of that year most of the larger firms united to form a common selling agency, Sales Service, Limited, through which all sales in the Canadian and United States markets were to be made. Up to a certain point the control of volume and variety is necessary to the filling of all kinds of orders that may be received.

This move strengthened these independents in competition with the co-operative but reduced the number of competitors. Between them, Associated Growers and the Sales Service controlled the main bulk of the tonnage. Each of these agencies had formed an intimate business connection with a group of Canadian fruit-jobbers, which was a further limitation on competition.

It was a situation which might have been expected to attract other competitive elements, but a new regulating factor was introduced before further developments could occur.

DIFFICULT MARKET CONDITIONS.

In 1926 the United States had the largest commercial apple-crop it has ever harvested, 117,357,000 boxes, and the commercial crop of British Columbia was the largest up to that date. Average apple prices in the United States dropped to the lowest point in more than ten years. Associated Growers had made export connections, more particularly in the United Kingdom, and were regularly shipping a fair volume abroad; and the individual firms associated in Sales Service, although not doing proportionately quite so well at that stage, exported out of the

1926 crop, according to figures furnished me, approximately 23 per cent. of their total aggregate handlings. Storage facilities were still, however, very deficient.

On the whole, British Columbia was not as unprepared for a crisis as in 1921 and 1922, but the situation was very difficult and lack of confidence in the system became very pronounced. An appeal was made to the Legislature to create a Board of Control with wide powers.

THE "PRODUCE MARKETING ACT."

The "Produce Marketing Act," which was passed in response to this appeal and became law in March, 1927, is an extraordinary Statute.

It created, in so far as these districts are concerned, the "Interior Tree-fruit and Vegetable Committee of Direction." This committee under the Act was given "the exclusive power" to control and regulate the marketing, except for consumption outside the Dominion or for processing, of all tree-fruits and vegetables. For this purpose the Legislature conferred on the committee all the power it, itself, possessed, by virtue of its jurisdiction over property and civil rights, "to determine whether or not, and at what time and in what quantity, and from and to what places, and at what price and on what terms" a product might be marketed and delivered.

It was given such authority as was possible to extend the effects of its control into other parts of Canada by the enactment that "every contract relating to the marketing of a product under this Act shall be deemed to be made in the Province and shall be construed accordingly."

Whether certain of the powers conferred by the Act exceeded the legislative authority of the Province and are *ultra vires* has been called in question in the Courts and a decision by the Supreme Court of Canada is expected soon to be delivered.

HOW COMMITTEE APPOINTED.

The committee was to consist of three members, one to be appointed by the Lieutenant-Governor in Council, who would act as chairman, and two by a society, incorporated under the "Societies Act" for the purpose of this system of control under the name of the British Columbia Growers' and Shippers' Federation. Although growers were referred to in the title, only licensed shippers were eligible for membership. Associated Growers were given 50 per cent. of the voting-power and, by force of numbers, the Sales Service group of independents controlled the balance.

The board of directors consisted of two representatives of Associated Growers and two of Sales Service and a fifth who was agreed upon. Of the two members elected to the Committee of Direction, one was chosen by each of these two shipping organizations.

In 1930 the charter and by-laws were amended to base voting-power on number of car-lots shipped. This still left Associated Growers with at least one-half the votes, but with provision that on an enlarged board Sales Service was entitled to two members, other independents to one member, and that two members might be appointed by the British Columbia Fruit-growers' Association.

Subject to the approval of the Federation, the committee was given power to defray its expenses of operation, including all salaries, by levies on any product marketed and it was required to make an annual report to the Federation, but in other respects it was not subject to administrative control by any other body, even by the Government, to which it was not required to report.

NO EXACT PRECEDENT.

It is quite understandable that the Legislature did not wish to be involved in the details of the marketing troubles of these districts, but I am not aware of any exact precedent for thus handing over, for the use of one economic group, of a portion of the sovereignty which belongs only to the people as a whole.

It is true that the State does delegate certain of its powers to subsidiary bodies, such as municipalities, but that is for purposes of general government, not private business. Then, municipal law is a general body of law under which all communities of requisite size may organize, and there is detailed legislative and administrative control over municipalities by the central government. The exceptional powers in the "Produce Marketing Act" were not made available to all economic groups, but to one group only, or rather to a portion of one group

only, the shipping agents. It is necessary only to imagine every economic group in a Province exercising such powers, with similar conditions in every other Province and legal authority for construing all contracts in interprovincial trade from both ends under different jurisdictions, to realize that an intolerable situation would result.

A partial model for the Act was found in the "Fruit Marketing Organization Act," passed by Queensland in 1923, and in similar Acts in other Australian States and in New Zealand, but there is this absolutely fundamental constitutional difference in the Queensland Act: that when sovereign powers were to be exercised they were exercised by the State itself. The Statute provided that "the Governor in Council, on the recommendation of the Committee of Direction, may make such regulations, etc."

CONDITIONS OF APPEAL.

Under the British Columbia Statute there was no appeal from acts of the Committee of Direction to the Courts, except as an alternative if a shipping licence was cancelled, but an appeal might be made to arbitration, when the only decision could be whether a certain order should be maintained, altered, or cancelled. On what grounds arbitrators could reach a decision if the committee had acted within its very wide powers is not clear.

No compensation for loss could be claimed and no suit entered against the committee. On the other hand, the committee could prosecute and it was provided that the burden of proof would then be on the accused, and by amendment in 1930 this was extended to lay the burden of proof on the other party in any proceeding under the Act, which would include arbitrations.

It is evident that the element of compulsion definitely entered the field with the passing of this Act.

TWO COURSES OPEN.

The committee, when constituted, had two general courses before it. It could regard itself as a peace officer ready promptly to restrain disorder, but otherwise interfering as little as possible with the activities and developments of business, or it could proceed to put into active use all the powers with which it was endowed.

The latter course was followed and as it was pursued year after year, although a majority of the committee must be elected each year by the Federation, it is to be assumed this policy had the assent of the principal shipping agencies.

It is not necessary to consider in detail the course of administration under this Act. In accordance with the views persisting since the convention of 1922, control by a board was obviously regarded as only a temporary measure, for the "Produce Marketing Act" expressly constituted a committee for a period of only one year, although it made provision that on request by the committee the Lieutenant-Governor in Council might extend its existence from year to year. From representations made to me in 1929 it was plain that a change of some kind was looked forward to by both growers and shippers.

ACCOMPLISHMENTS BY COMMITTEE.

Certain important accomplishments by the Committee of Direction were cordially and almost universally acknowledged. This was especially the case with regard to the measures taken to check, if not entirely abolish, consignment by shippers. Both the shipping and receiving ends of the trade had suffered some demoralization from the wholesale consignment in 1922 and it had been easier ever since to resort to the familiar practice. At least, there had continued among the growers a very real fear of consignment. Many other shipping and trading methods had been regularized by the committee. That the members of the committee had worked ably and devotedly in the development of the system was everywhere recognized.

DEFECTS OF THE SYSTEM.

It is the system itself, rather than any administrative acts under it, which is, however, of most direct interest for the present purpose. A few observations may be offered:—

(1.) It is a system of administrative control and regulation. Now, regulation is very useful if the thing to be regulated possesses all the elements necessary for successful operation, and requires only that excesses be restrained and more orderliness effected. Mere regulation may keep a defective machine running but cannot make it turn out a high-class product.

In my opinion, the system to which this scheme of control was to be applied was deficient in essential elements. It was not a centralized system, for there was some competition, but it was not a fully equipped competitive system, for there was competition only in one kind of agency function, the management of pools; and there were only two important competitors, each of which, as an additional limitation on competition, had definitely associated itself with a particular distributing group on the Prairies. That was a situation which required something more than regulation.

(2.) The control system, as was inevitable under its constitution, adapted itself to, and build itself around, the form of marketing it found in existence. By regularizing every phase of the operations it tended to confirm that form of marketing and buttress it against change.

Its classifications of buyers and graduations of prices put difficulties in the way of making new business connections, and all its resources were employed to prevent any important extension of primary merchandising. Indeed, as I understand it, the amendments to the Act suddenly decided upon a year ago were conceived primarily for the purpose of making it unattractive to buy direct from growers by compelling the proceeds of all transactions to be pooled and prorated.

(3.) Control did not cover the whole field. It did not apply to marketing for export or for processing.

Indirectly it could affect the problem for exporters by the prices it fixed in domestic trade and by the restrictions on varieties, quantities, and sizes it might impose in that trade, and this created uncertainties and complications for exporters. On the other hand, the extent to which the exporters would clean up the surplus was bound to react powerfully on conditions in the domestic market.

Control may or may not be a good thing, but partial control in matters that are so interrelated that they are but phases of one problem is perhaps the most doubtful form of control.

(4.) Even within the domestic field application of control did not begin until the shipping-platform was reached.

Probably the Act was not intended to be applied at any earlier stage, but certain of the definitions would at least leave this open to question.

It is to be noted, however, that no attempt was made to fix prices to the grower in his orchard, or at the packing-house door, or to regulate packing charges or the commission or return to a licensed shipper for the selling function he performed.

(5.) Uniformity of conditions do not exist throughout all parts of these districts. A general order as to price, varieties, sizes, time of shipment, or quantities might suit the Okanagan but not the Kootenays, or the north but not the south.

Submissions made to me convinced me that all these districts cannot fairly be treated in the same way, and that this fact, although recognized to some extent, had not been recognized sufficiently.

This is not offered as a criticism of the administration so much as of the system, which was intended to produce maximum uniformity and yet made no provision for compensation to individuals or districts in cases where a share of the direct advantages created for others did not accrue to them.

(6.) The policy of extending control to operations and agencies outside the Province is open to the question whether it is good business for producers or for their direct agents, to attempt to impose their ideas of a distributing system on districts under other jurisdictions, which have evolved or are evolving out of their own needs and experiences a system which presumably they find suitable.

There are many examples of unsatisfactory results under such a policy.

That there were numerous evasions of the conditions laid down by the committee for trade with other Provinces was admitted by all parties concerned. It is impracticable fully to police and enforce regulations outside the home jurisdiction, and hard enough to do so anywhere.

(7.) Under the course adopted the system became so formal and elaborate that the business of selling lost its usual characteristics, both for seller and buyer.

The latest regulation governed for the moment, but the future was uncertain. If exceptional conditions arose, no shipper could make a prompt business decision and act upon it, but must first apply for a new regulation or an exemption order.

(8.) Cost was necessarily in proportion to the work undertaken. As a rate per box the the levy was not large, but the aggregate sum of $60,000 to $70,000 a year was, I found, a matter of very general comment.

COMPULSORY CENTRAL SELLING.

We come now to consider Central Selling. This was originally proposed in 1922 as a matter of voluntary contract, but compulsion and the use of State powers, introduced in the "Produce Marketing Act," is now put forward as the basis.

The proposition is that the selling through a single Central Selling Committee of all fruits and vegetables grown in these districts shall be established by law. The method suggested is the passing of a Statute, in nature an expropriation measure, which would take from all growers their right of ownership in the products of their farms, as and when grown in future years, and confer the title and right of administration upon a committee, with the condition that this committee account to the growers in the manner of trustees for the net proceeds realized. This committee would be elected by vote of the growers.

Many modifications of form would be possible in working out this plan, but if the general principle were to be adopted the simplest and most effective form would be the best, and that would probably be that suggested above.

RAISES SOCIAL AND POLITICAL PROBLEMS.

This proposal raises problems in the realms of sociology and political science as well as in that of economics.

In our scheme of government in Canada, private property is recognized and the right to deal with that property according to the individual judgment of the owner, subject to general restrictions imposed on all citizens in the interests of peace, order, and good government.

Under the plan now proposed, the property rights of one class would be treated in a different manner from that embodied in general laws. Legislation for one class, that will not, or cannot, be made applicable to all classes, is not in accordance with the spirit of our system, and class legislation of this kind is forbidden by the constitution of some countries.

In the spirit of our constitution a Government could not, however, refuse to any other class or group a similar measure, and one fundamental test of any special legislation is the condition that would be created if it were made general.

COULD NOT BE MADE GENERAL.

If the selling of every class of goods produced in the Province was compulsorily centralized, each under its own committee, would the result be satisfactory? One committee would have title to all the lumber, another to all the meats, another to all the clothing, another to all the coal, another to all the eggs, and so on. There would be a series of local monopolies.

Such a law could be passed only by a Province. Under our constitution jurisdiction over property and civil rights is excluded from the powers of the Dominion. If the policy was adopted in British Columbia, it might be put into effect in every other Province. Would this be a desirable condition?

IF UNSATISFACTORY, WHAT THEN?

If dissatisfaction arose for any cause, there would be two alternatives, either the repeal of the legislation or the taking-over by the Provinces of the administrative regulation of the businesses of these several monopolies, and the most feasible method would be by the direct management of industry and commerce.

I would suggest, not only that compulsory group monopolies are not in accord with the genius of our institutions, but that our constitution, with its division of powers between Provinces and Dominion, is not adapted to a practicable working-out of the principle of compulsory monopoly.

For several years, as has been pointed out, the movement in the British Columbia fruit districts has been toward centralization. Even after acquiring an advanced form of compulsory regulation by a central authority, a substantial body of opinion has been pressing toward something more complete. It would be well it should be clearly recognized that the step now proposed is the last step, but one, that could be taken in that direction. If compulsory central

selling fails to satisfy the people of the districts, or the people of the Province as a whole, the only possible move, except retreat, would be to Provincial socialism.

ECONOMIC CASE EXAMINED.

In view of the issues involved, it is evident the case for compulsory central selling on purely economic grounds must, to justify a decision to proceed, be so clear and strong that no reasonable doubt remains. It is a case in which the burden of proof must rest upon the applicants.

Since receiving the many representations made to me a year ago in support of the idea, I have given the matter very careful thought and my conclusion is that the plan does not offer economic advantages that outweigh its disadvantages, and that, on balance, the economic argument is against it. I do not propose to discuss all that has been said, or may be said, in favour of central selling, but only to state some of the main grounds for my opinion.

(1.) A single holder of a total supply is, under the conditions in this industry, a weak holder. The idea that the more completely a selling organization controls supplies the stronger its becomes is true only when the supply is limited and the demand large.

With surpluses such as exist in the case of apples and some other products, a big holder becomes a weak holder and the bigger the weaker. Every buyer knows where all the supplies are and knows that the holder must become increasingly anxious to sell.

Where supplies are distributed among several holders, a buyer is more disposed to close for his requirements on the first opportunity to secure just what he wants, because of the uncertainty where he might have to look in the future for the quantity and quality he needs.

There are many notable illustrations in the business world of this change in marketing conditions as the result of the concentration of supplies. Buyers cease to commit themselves at any one time for more than their immediate requirements and leave the holder to carry the stocks.

A buyer who has made substantial commitments must push sales, while a buyer with small stocks is not so keen and can more readily turn to some substitute or some other line of goods. Hand-to-mouth buying does not make for big trade.

(2.) No one salesman can sell to every buyer on his route, and no one selling policy can secure all the business. There is no territory in which a rival salesman cannot pick up some business with the same class of goods.

The important part of selling is stimulating or creating demand, and no one individual, and no one staff, can be master of all the forms of appeal that will produce business.

British Columbia apples must have wider markets and more demand, and, unless all business experience fails, one Central Selling Committee could not sell as many apples as the aggregate that could be sold by several agencies.

Because it was a monopoly, the public, which has been taught to regard monopolies with distrust, would not be favourably predisposed and dealers would be inclined to caution.

(3.) Being a monopoly, it would have no competitor in its own field by which to check its activities and results. It is the experience of the world that, with no competitor against whom to measure oneself, effort is not sustained at the maximum and possible economics are overlooked.

How would the Central Selling Committee know, and how would the producers know, whether or not its organization was thoroughly efficient and economical? No check could be applied, not even that of the balance-sheet as in private companies.

Many times the theoretical savings of centralization may easily be lost by even slight relaxation of effort.

(4.) In centralized management mistakes are easy to make and become a serious risk. A mistake by a committee controlling a monopoly, which has no check from observing the courses taken by competitors, will not only affect all the business, but may become a disaster.

Where business is divided among several boards or individuals it is extremely rare that the same misjudgment is made by all at the same time, and with the example of others before them it is not often a mistake will not promptly be corrected.

The effect of mistakes tends to be limited to only a portion of the business and to be limited in time. The bigger the proportion of the business controlled by one operator, the more serious the effects of error will be.

There are many examples in the history of commerce of all these effects and tendencies.

(5.) It is very doubtful whether an attempt should be made to manage through one board the interests of districts which differ as much as, say, Kamloops, Salmon Arm, North Okanagan, South Okanagan, Kettle River, and Kootenay.

The probabilities of dissatisfaction under a Central Selling Committee would appear to be very real.

(6.) Under conditions in this industry a central committee could not compel higher prices than world supply and demand dictate. In so far as it concentrated stocks, failed to develop all possible demand, or made misjudgments affecting large quantities, it would rather tend to be a weakening factor.

What is termed the "stabilization" of prices would also be subject to conditions beyond the control of any such committee.

(7.) Adoption of the new system would undoubtedly largely dislodge the personnel of the present handling agencies and break the connections already made, which always have a personal element in them. It would also dislodge capital now working and probably at considerable loss.

There is a great deal of ability and of valuable experience in the existing personnel. It is an asset. Some might be absorbed into the new organization, but the rest would drop out.

Only a little more and better directed effort might put this industry over. It is a question whether to add what is necessary to existing resources, or to clear the ground and build something new and untried.

Then, if the new plan failed to give satisfaction and was abandoned, the industry would face a difficult period in which new agencies would have to be assembled and new connections made.

(8.) Among the advantages claimed for extreme centralization is a saving in costs. These claims are based rather on what is considered inherently probable than on actual results achieved by other centralized organizations. Estimates put forward in this way are, unfortunately, capable neither of proof nor of disproof.

Even the probability of saving is not so great as is sometimes made to appear. In the transference of goods from producer to ultimate consumer a number of distinguishable functions must be performed. The question is whether under single executive direction each of this series of functions can be performed more efficiently in relation to cost than if each function were operated independently for its own advantage.

Efficiency as well as cheapness must be taken into account, for if the separate agencies do better work and produce more business they may create the extra recompense they charge.

On the whole, the probability of important savings is by no means clear. Actual instances, in the class of business with which we are now concerned, of the realization of large amounts of money because of centralization are not easy to find.

The history of the distribution of agricultural products in their natural state has not been characterized by the successful establishment of monopolies or dominating corporations. Private enterprise has not discovered a way of combining functions or concentrating supplies that would give one company so much advantage over others that it could drive them from the field, and it is found, not only in British Columbia but elsewhere, that private companies can divide business even with large co-operatives, whose methods of operating are similar to that under the system now proposed.

At any particular time excessive charges may be made for some function, but there are other means in influencing such a situation besides recasting a whole marketing system.

These considerations do not exclude the possibility that some saving might be effected, and this should be weighed among other arguments.

(9.) Coming to the general character of operations under the proposed scheme, as distinct from their business efficiency, one of the most serious objections is that to centralized pooling.

Among the greatest needs in these districts is the regulation of production. Under centralized pooling the working of the natural forces that regulate production would be more obscured and less effective than under any other system.

It is to be assumed all products would be pooled. Individual ownership of particular lots would have been abolished and the committee would be dealing only with its own property, which it would handle as a whole. Moreover, it would not be practicable for it to sell separately for the accounts of individuals or pay one grower more than another for the same variety and grade during the same period.

Now, there is a considerable quantity of uneconomic fruit being grown in these districts, the yield per acre being too low, or the variety or quality not being right. If the causes of this condition are remediable, a prompt spur to action should be applied; and if they are not, it is only kindness to those growers and plain justice to others that the seriousness of their position should be forced on their attention. For nothing can save that class of growers. There is no more urgent problem.

The natural regulators of production are saleability and price. If a man finds that his neighbour's fruit is the first to be purchased, or sought by an agent, and his the last; that his neighbour's fruit commands a premium and his does not; or that there are some varieties he can sell and others not, it comes home to him there is something wrong.

On the other hand, the man for whose fruit buyers compete and pay top prices knows he is on right lines and that it is worth while to devote intelligence, labour, and care to his orchard.

A Central Selling Committee would be the trustee for the man with the uneconomic crop as well as for the man with a good crop. It might admonish him, but it must take his produce as readily as any other and do what it can with it, and return him just as much as any other grower having similar grades.

All the uneconomic fruit on the hands of the committee would depress the price of all fruit, lessen the return for those with sound propositions, and perhaps push over the edge the man who was just on the margin or a little above it. There would be no rewards for extra quality or condition, for picking at just the right time, or packing with greater care.

The committee could not undertake to regulate production as incidental to selling the crop. It would be a full-time job in itself. Moreover, bureaucratic regulation has never been a success and a board elected by all the growers could not declare that this man and that must go out of business. After opportunities for education have been offered, regulation must be left to the natural forces.

COURSE OF DEVELOPMENT RECOMMENDED.

What, then, should be done?

The choice is between two principles—centralization by statutory enactment, or freedom of action within the general laws of the land.

Since 1922 those whose opinion has prevailed have been trying to manage competition so that it would evolve into centralization or be as nearly like it as possible, and special compulsory powers of regulation have been introduced for the purpose. The result has been neither the one thing nor the other. Real centralization should be tried out or a reasonable chance given to competition. This straight issue must be faced and a clean-cut decision reached, for compromise between these alternatives is hopelessly weak.

On grounds which have been indicated, it would, in my judgment, be unwise to choose compulsory centralization and I advise against it.

The question then is as to the first steps to be taken in a movement toward a satisfactory system based on the alternative principle.

If the industry is to be self-governing, and not under authority, it will require to develop some simple organs, and the less complicated the machinery the better. There is a great deal of work to do, but most of it is in the orchards and out selling fruit, and not in committee-rooms.

That the people of these districts, both business-men and growers, are as capable of managing themselves as are the people in any other industry, there can be no question. If they want the aid of precedents, there is the experience of centuries to draw upon, for open competition under general laws is the oldest of all market systems and most of the world's business is done under it.

PRACTICAL EXAMPLES.

In the fruit trade the example found in the Washington valleys is of particular interest. As conditions in the Wenatchee and Yakima Districts are well known to the people in British Columbia, and as references have already been made to some of these conditions, only a brief summary of principal features need here be given.

All types of marketing agencies operate freely in the same market—co-operatives, private pools, merchants, commission agents and brokers. Even a foreign firm can operate under licence. It is an open market.

There are no laws of the character of the "Produce Marketing Act" creating special powers of regulation, and no attempt by voluntary association to effect the same purpose. I was informed that all interests had united in representations to the Federal Government against applying to this industry the provisions of the Farm Relief policy of the last two years. Interference by Governments is not sought or wanted.

Centralization that cannot be won and held in open competition is not an objective. As the laws and policies of the United States are more definite than those of Canada in respect to combinations that may operate in restraint of trade, the idea of a monopoly such as a Central Selling Committee is not in any one's mind.

All kinds of marketing troubles may be experienced, but it is very notable that there is no disposition to blame them on the marketing system, and I could learn of no movement looking toward a change in the general character of the system.

TYPES OF ORGANIZATION.

For common action to provide certain essentials of intelligent and successful marketing, voluntary associations have been formed.

One of these essentials is accurate current information on quantities and prices. To provide this information a shippers' association exists in each district.

To the secretary of this association each member reports every day the sales made by him, stating price, variety, grade, sizes, brokerage, date of shipment, and terms of sale. Cash buyers state the price they paid and send copies of contracts signed with growers. Export sales, as well as domestic, are reported. The secretary at noon every day issues a bulletin to members giving the important details of all these sales and purchases. The Wenatchee and Yakima associations exchange these bulletins.

The association itself meets only occasionally for general conference. There is no attempt to fix prices or even to agree upon prices. The regulating factor is the knowledge of what others are doing and the natural desire to do at least as well. The association exists only to exchange prices.

Members are admitted, as to any other similar body, by ballot. There is no incentive to exclude any legitimate and honourable trader, because the more complete the information the better. Cases where members have given incorrect facts or have failed to report are almost unknown.

To serve other common interests, such as those in traffic problems and general advertising, separate voluntary associations exist, composed of both shippers and growers, which are in the nature of boards of trade for the industry.

ASSOCIATION OF GROWERS.

In the Wenatchee District I found that there had been organized in 1927 the North Central Washington Growers' Association, limited to actual operators of orchards who were also owners. Among the objects of this association, in addition to those usual in such organizations, was the studying of the results obtained by the various sales groups "to compare them, and throw our support to those serving us best," which is the most effective way in which growers can regulate marketing agencies.

Another object was "to recognize and co-operate with a Shippers' Council through a contact committee, which will keep in touch with the Shippers' Council, working with them in everything that will secure greater returns to the grower and benefit the industry at large."

I had a conference with the representative of this growers' association, who was allowed to attend all meetings of the Shippers' Council and was given access to all its information on

prices. In his opinion it was a great advantage to the growers to be able to make direct representations and to be kept fully informed.

That a workable plan on the basis of voluntary effort is possible, is established beyond question by such examples, and every industry furnishes other examples showing a wide range of practicable forms.

After considering such differences as there are between conditions in the United States and in Canada, I see no reason why a system somewhat similar to that in Washington should not work in British Columbia, granted only the will to try. A matter that may be in some doubt is whether, in view of the bent of mind of so many growers and the belief in other methods, which have persisted for so many years, special temporary provision might be made for the period of readjustment.

A system should develop among the people themselves, for no laboratory product is likely to fit. The greatest service any observer can render is to stimulate reconsideration of the problem by those who must do the work.

CONCRETE SUGGESTIONS.

From this point of view, and merely to offer concrete starting-points for thought, I would make the following suggestions:—

(1.) That immediate steps should be taken to provide for the method of dealing with prices by an association of shippers for the exclusive purpose of reporting and exchanging prices and terms and holding occasional conferences on these matters.

I would suggest that this particular association do not undertake any other work whatever. Differences of opinion about other matters might introduce trouble.

Without an accurate and up-to-the-minute knowledge of price movements, business cannot be safely and successfully planned. Where trade can be conducted in open market-places, every operator discloses his prices by the bids or offers he calls out and every one knows at what prices business is closed. Where trade cannot be so conducted, the alternative is the regular reporting and exchange of prices and terms, and one simple way of doing this is that found practicable for over ten years in Washington.

That the prices at which a crop of fruit can be moved cannot, in my judgment, be dictated, I have already made clear. All that can be meant by the "fixing" of prices is that they are named from time to time while it is being discovered whether they are right or not. The securing by compulsion or agreement of adherence to the named price for the period of the test is the object of control.

Where compulsion is not approved of, or individual judgment differs from the decision of the controlling authority, there are so many ways of modifying price in the terms given, or in other ways, that strict observance cannot be enforced. The results under agreements are for much the same reasons likely also to be unsatisfactory.

Even if the fixing of prices were good public policy and were sanctioned by our laws, it would in most cases be ineffective in practice. My advice is that it should not be attempted.

The Traffic and Credit Council, the association of shippers existing up to 1923, attempted, as I understand it, to fix prices by agreement and failed. It also attempted to perform several other functions through the same organization. In both these respects it differed fundamentally from the association here suggested, and its experience has no bearing in this case. A shippers' association solely to report and exchange prices and terms has never been tried in these districts.

If every dealer knows exactly what every other dealer is doing, he is in a better position to plan his own business to get the best possible results than he could be if acting under agreements or orders of the observance of which he was always in doubt.

(2.) All other trade matters upon which common action is desirable, such as traffic questions, general advertising, etc., should be handled by organizations distinct from this Shippers' Council.

The purposes of such organizations should be made specific and not too numerous. Where the purposes can be best served by a membership open to both growers and shippers, this should be considered. How far existing organizations could be used I have not sufficient information to express an opinion.

(3.) Organization of growers, and conferences of growers among themselves and confined to them, seems to me an important need in these districts.

Growers must continuously look after their own interests. It is their fruit others are dealing with. If they are not informed and active in their own behalf it is idle to complain if things go wrong.

It is not enough that large numbers of growers are members of the co-operative and others are shareholders or partners in independent packing or shipping agencies. Those who thus become packers and shippers thereby take on other classes of interests, and when they meet with their fellow-members it is mainly to consider these other interests. As packers, they must want their packing plants kept busy even though less packing might widen the market; and as shippers, they could hardly favour more competition, or competition of a different kind, even though this was a need of the industry.

It is a good thing for growers to take as much part in marketing as they are prepared to give businesslike attention to, but their preponderant interest is that of growers. In a fully equipped competitive system, where every form of alternative is offered, growers can make their influence felt individually by the way they distribute their business, and formal organizations are less necessary.

Under any othere conditions, organization, purely as growers, must be important. Where growers carry all the risks as far as they now do in these districts a very strong case for organization surely exists.

Whether growers could use for these purposes any existing organization or organizations or would form a new association is a matter for local decision.

(4.) To establish contact between the growers and the trade, consent by the Shippers' Council to admit to their meetings a responsible and fair-minded representative of the growers, after the manner of the arrangement in Wenatchee, is well worthy of consideration. For the rest, both growers and shippers might be members of associations dealing with the general development of business.

THE TRANSITIONAL PERIOD.

Special provision for a transitional period should not be necessary. The industry, in my opinion, is quite capable of proceeding under self-determination without jar or confusion and with more vigour than before.

Even a sudden complete withdrawal of compulsory regulation by the repeal of the "Produce Marketing Act" should give no occasion for disquietude. I am aware, however, that the views so long held by many upon the necessity of control might make them distrustful for a time.

If it should appear that this was the honest attitude of any considerable number of the growers, it might be thought practicable to leave for a year or two the powers as they now stand, but subject to exercise on a different administrative principle.

It has been pointed out that the Committee of Direction originally had alternative courses open to it. One was to act as a peace officer to restrain disorder should it occur, and the other was to become an active managing body, putting into use all the powers it possessed. In choosing the latter course the committee undoubtedly acted in line with the trend of majority thought at the time. The other course might, however, have been taken under the Act.

By a slight amendment to the Act it might be provided that one man alone, and not necessarily three, might hold the regulating authority. Appointment might be by the Lieutenant-Governor in Council, as now in the case of the chairman, which would remove the questionable feature of leaving majority control in the hands of two or three shipping bodies.

Under the conditions now assumed, the objective would be the firm establishment of self-government within the industry. The organs set up by shippers and growers would be the operating bodies.

If a hitch occurred or trouble arose, this man, as investigator, arbitrator, judge, or dictator, could be called upon to settle the difficulty. Misunderstandings in the earlier stages might arise or alarming rumours circulate as to practices that might undermine the system, which prompt investigation might at once dissipate. If any practice was found which was unfair or contrary to ordinary sound business, there would be the power to order or prohibit. At the very beginning, while the organs of self-government were developing, a few temporary general orders might be agreed upon as helpful.

This man could consult growers and shippers, but would act on his own judgment, and he would retain the power of initiative to act even if not applied to. He would be a dictator, but

for the purpose of rendering his function unnecessary at the earliest possible moment. The less he found to do the more satisfactory would be the whole situation. Men with the knowledge and common sense to fill such a position could be found in these districts. The cost would be very much less than at present.

That the "Produce Marketing Act" is, in my opinion, open to constitutional as well as economic objections, I have indicated. It is, however, on the statute-books and in actual use. No new constitutional question would arise if a single individual were substituted for a triumvirate, and the economic objections might not appear so serious if the powers were being used only to facilitate the establishment of a different system.

It will be clearly understood I am not recommending that this course be followed, but am only suggesting that if special provision for the period of transition is desired, this means of meeting the need might be considered. Other means also could doubtless be found.

Owing to the condition under which this part of my report is written and to the desire that it should be available without further lapse of time, it is not practicable to deal separately with details, under the several branches of inquiry set forth in the Order in Council constituting this Commission. I have understood that the enumeration of branches of inquiry was intended to be suggestive of the scope of the problem, and in this respect a guide rather than an instruction to be fully carried out. A very much longer period of investigation would have been necessary if the whole field were to be studied in detail.

In this second part of my report I have presented all the conclusions as to conditions and tendencies in marketing which have seemed to me the most important results of my study, and am of the opinion that the further treatment of such details as I had opportunity to examine into would not add to it any material value.

All of which is respectfully submitted.

W. SANFORD EVANS,
Commissioner.

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