National Office
2717 Wentz Ave.
Saskatoon, Sask., S7K 4B6
Tel (306) 652-9465
Fax (306) 664-6226

national farmers union
*In Union is Strength*

# The Farm Crisis and the Cattle Sector:

# Toward a New Analysis and New Solutions

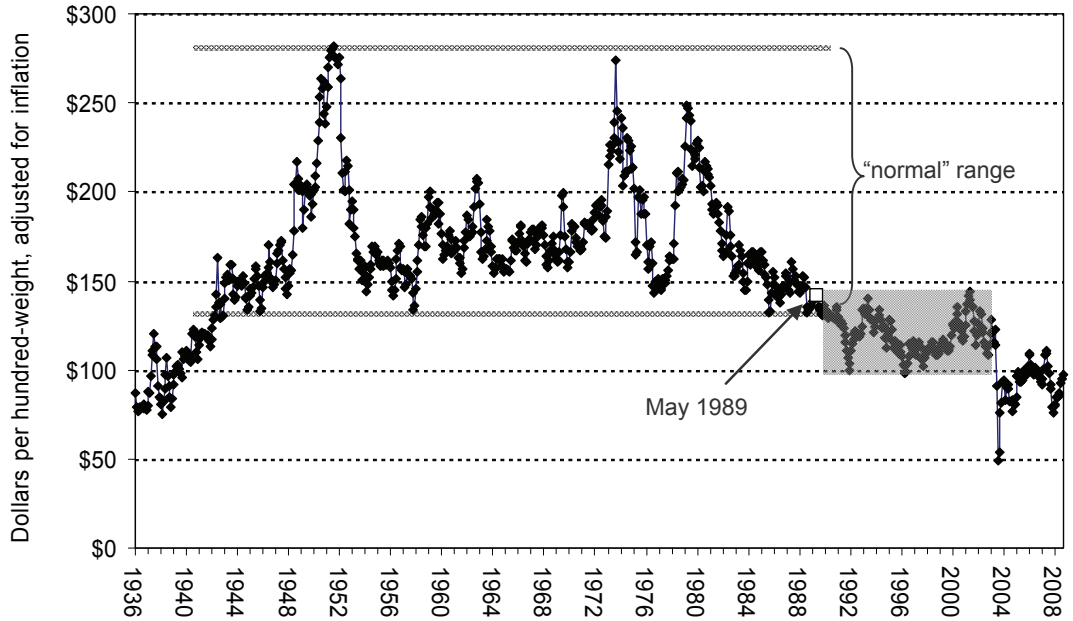
A Report by the National Farmers Union (Canada)

November 19, 2008

# 1.0 Executive Summary: Something happened

If you spend only one minute looking at this report, spend that minute contemplating the following graph.

**Figure 1. Ontario fed (slaughter) steers**
**(dollars per hundred-weight, adjusted for inflation)**
**January 1936 – August 2008**




Sources: Government of Canada (Statistics Canada, CANSIM database; Agriculture Canada, *Annual Livestock and Meat Report* [aka *Livestock Market Review*]; Statistics Canada, *Livestock Statistics*, Cat. No. 23-603; Statistics Canada, *Cattle Statistics*, Cat. No. 23-012) and CanFax.

Figure 1 shows Ontario prices for fed ("finished") steers—the prices beef packing companies pay for male (castrated) cattle, fattened and ready for slaughter and processing. (Graphs for other provinces and cattle types follow. All show similar patterns. For instance, the graph for Alberta fed steers is virtually identical to the one above.) The graph above covers the 72½-year period January 1936 to August 2008. It lists monthly prices, in dollars per hundred-weight, live-weight, adjusted for inflation. ($100 "per hundred-weight" = $100 per hundred pounds = $1 per pound.)

The graph reveals distinct periods. The far left shows the low prices of the Great Depression. Then, in the early 1940s, slaughter-steer prices returned to a range we'll call "normal." The two horizontal grey lines mark the top and bottom of a horizontal channel that defines the price-range from 1942 to 1989. For those 47 years, prices oscillated between a low of $130 per hundred-weight and a high of $280 per hundred-weight, live-weight, adjusted for inflation. Fed steer prices went up and down, but remained within that horizontal channel—that is, prices varied, but trended neither higher nor lower.

The graph shows the 1952 peak, when prices topped $280 per hundred-weight, then the subsequent crash that followed the discovery of foot-and-mouth disease in a herd in

Saskatchewan. Moving to the right, the graph shows prices in the latter 1950s and 1960s consistently in the range of $150 to $200. Next, it shows a spike in the early 1970s to nearly $280, a mid-'70s decline, a recovery in the late '70s and early '80s, and another decline beginning in the early '80s. Prices went up and down, *but not once in the 47 years between 1942 and 1989 did the price of Ontario slaughter steers fall below $130 per hundred-weight. Never did prices breach the line that marked the bottom of the post-Depression normal.*

Then, in 1989, prices *did* drop below that $130 per hundred-weight line. After '89, cattle prices continued to oscillate, but they did so within a much lower range of values. Between 1989 and the May 2003 announcement of a case of BSE (Bovine Spongiform Encephalopathy), instead of rising and falling within that previous channel's low of $130 and high of $280, prices moved up and down between a low of $98 and a high of $140. Consequently, the *highs* for the 14-year period between 1989 and 2003 were about equal to the *lows* in the pre-'89 range; i.e., the *best* prices after 1989 were not much higher than the *worst* prices before. The grey-shaded box on the graph highlights the 1989-to-2003 period.

Then, in May 2003, the announcement of a single case of BSE triggered a series of events that caused prices to fall still further. For two months, slaughter-steer prices plumbed the depths of $50 per hundred-weight. Then they recovered, but only modestly.

That brings us to the current period. The data points located at the graph's far right show prices for the period after the discovery of BSE (September 2003 to August 2008), a phase wherein fed steer prices rose and fell between a low of about $75 per hundred-weight and a high of about $110. Again, we see that the best prices during this period were about equal to the worst prices of the previous period (the 1989-to-2003 period). Note also: current-period peaks *are far below the troughs* of the '42-to-'89 normal period. Moreover, current-period prices—$75 to $110 per hundred-weight—duplicate those of the Great Depression.

Here's the kicker: This past year, September 2007 to August 2008, prices for slaughter steers averaged $85 per hundred-weight, live-weight. But the average price for the 47-year period between 1942 and 1989 was $174 per hundred-weight—double the recent average. How can this be? In the 1940s, '50s, '60s, '70s, and '80s, using packing plants that were comparatively inefficient, paying workers 22% more,[1] serving a smaller market, and selling to less-affluent consumers, the system was able to pass back to farmers *twice as much* per animal. Stated conversely, in the latter '80s and throughout the '90s, packers built super-efficient plants, cut wages, and ramped up production to serve export markets, and the result of all this

**A note about inflation**

To put current prices into context, to understand how high or low they might be, we must compare them to past prices. And to properly understand past prices, we must adjust those values for inflation.

One dollar in 1975 had the purchasing power of four dollars today. To buy a basic pickup truck in 1975 required approximately $5,500 dollars. Today, a comparable truck costs four times as much. Similarly, a house in Toronto or Edmonton or Winnipeg costs at least four times as much today as in 1975. The Statistics Canada Consumer Price Index (CPI) was 34.5 in 1975; it is 137 today (1992=100). Therefore, if you have a price from 1975 and want to know its equivalent value in today's dollars, multiply the 1975 price by four.

Ontario 800-to-900-pound feeder steers sold for $50 per hundred-weight, live-weight, in 1975. That's equivalent to about $200 today. Price comparisons for Alberta and other provinces are similar.

expansion, efficiency, and cost-cutting is that farmers now receive *half* of what they did before that restructuring.

Moreover, prices for *all* classes and types of commercial cattle (and most purebred and breeding stock) have followed the same trajectory. Graphs in this Executive Summary and in the Main Report will show that prices for 800-to-900-pound feeder cattle have similarly fallen far below 1942-to-1989 normals, and that prices for these cattle today are half of average prices in the '42-to-'89 period (Figure 15 to Figure 19 in the Main Report show prices for these cattle). Similarly, 500-to-600-pound calf prices took a dramatic downward turn in the early '90s and are today just over half of their '42-to-'89 averages (see Figure 9).

Cow-calf producers and independent feeders are suffering today because they have a problem that is *real*—packers are paying feedlot operators half of what packers paid those feeders' parents and grandparents. In turn, cattle feeders are paying cow-calf producers half of what their parents and grandparents received. These half-price cattle are bankrupting family farmers across Canada and creating the most severe crisis in the sector since the Great Depression.

**A complementary view**

Another way to understand the preceding graph is this: The graph's prices are adjusted for inflation. Thus, the relatively buoyant prices between 1942 and 1989 indicate that cattle prices during that period more-or-less kept pace with inflation. As other goods and services increased in price, cattle prices increased at approximately the same rate. Over the past two decades, however, price increases for other goods have been twice as large as the price increases for live cattle.

If fed cattle prices had kept pace with other prices, cattle today would sell for approximately double their current values. Instead of receiving approximately $1,100 per slaughter steer (1,250+ pounds X $85 per hundred-weight), farmers and feedlot operators would receive $2,200. Increases for calves would be almost as dramatic: Instead of receiving approximately $590 per feeder steer calf (550 pounds X $107 per hundred-weight), cow-calf producers would receive approximately $1,010 (550 pounds X $184 per hundred-weight). The positive difference such prices would make to farm families is impossible to overstate.

Solving the crisis is easy: We merely have to figure out how to restore cattle prices to normal levels. We just need to do what farmers, feeders, packers, markets, and governments managed to do *consistently* in the 1940s, '50s, '60s, '70s, and '80s: pay fair and adequate prices to independent feeders and cow-calf farmers.

**A note about reading this document: Though the themes touched on in the Executive Summary are developed in the Main Report, the Main Report does not duplicate all the points of the Summary. The NFU recommends that all those interested in the issue first read the Executive Summary. Then, for additional evidence and more details, we recommend that those interested go on to read the Main Report.**

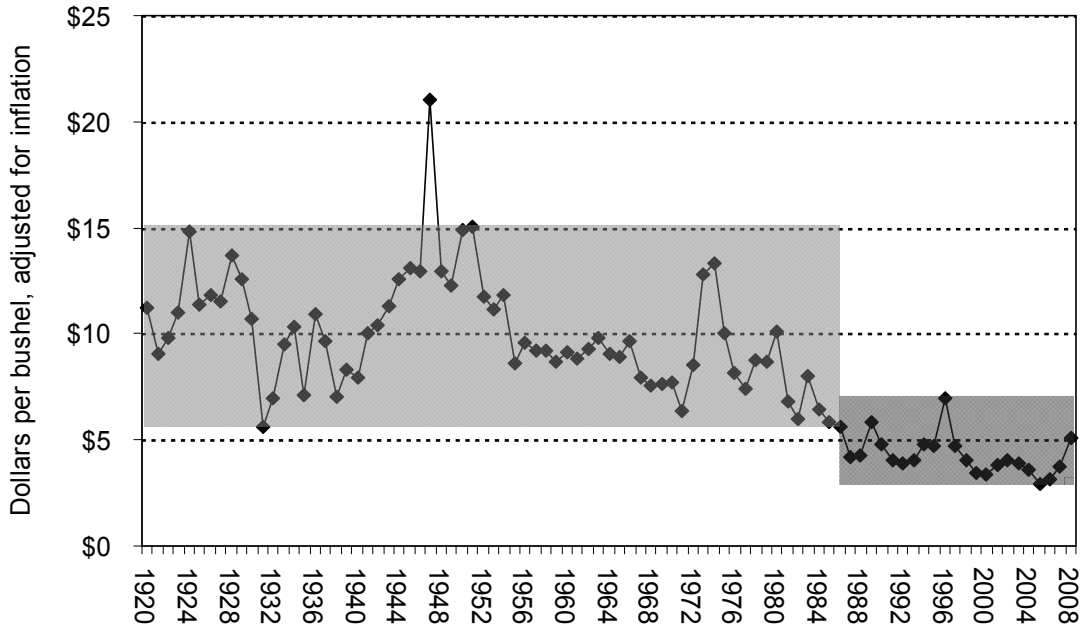
**Superscript numbers (small numbers raised above the line of the text) in this Executive Summary refer to endnotes located on the final pages of the Main Report; please download that Report in order to access a wealth of endnote references.**

**This Executive Summary and the Main Report are both available as downloadable files at www.nfu.ca or by mail by calling (306) 652-9465 or by e-mailing nfu@nfu.ca .**

## 1.1 Executive Summary: Why now?

In order to fully understand the changes in cattle prices over the past 20 years, a further piece of information is needed. It's true that an unprecedented downward price shift occurred after 1989—the post-WWII "normal" phase ended and prices moved sharply lower; the preceding graph shows this. But some cattle farmers may object to this assessment: they will point out that several years between 1989 and 2003 were profitable ones for them. Many made money in the '90s—cattle and calf prices paid the bills and provided a modest living. Why this continued prosperity even after the 1989 cattle price collapse? The answer is simple: grain prices.

**Figure 2. Ontario corn**
**(dollars per bushel, adjusted for inflation)**
**1920 – 2008**




Sources: Statistics Canada, CANSIM database; Agriculture and Agri-Food Canada (by request).
Value for 2008 is an approximation.

The cattle price collapse of 1989 has been, until recently, partly masked by a similarly timed feedgrain price collapse. Grain prices fell in the latter 1980s to levels far below normals—*to levels below those of the 1930s*. Thus, although packers reduced the prices they paid feedlots for fat slaughter cattle, feedlots' "costs-of-gain" (mainly feedgrain costs) also fell. Therefore, the profit decline for feedlot owners and the price decline for cow-calf producers were both lessened.

Figure 2, above, graphs the price of Ontario corn delivered to Chatham for the period 1920 to 2008. The units are dollars per bushel, and the values are adjusted for inflation. In the 66-year period from 1920 to 1986, the inflation-adjusted price of corn never dropped below $5 per bushel (see prices within the larger, lighter-grey shaded box). Then, in 1987, prices did drop below $5 and have stayed below that value for most of the subsequent years (see prices within the smaller, darker-grey shaded box). The average price for corn for the 21-year

period from 1987 to the present is $4.35 per bushel. The average for the 1920-to-1986 period was $10.51 per bushel—nearly 2½ times the post-1986 average price. As recently as 1980, the inflation-adjusted price was $10 per bushel. As you will see in the Main Report, the graph of western feed barley prices (Figure 33) looks virtually identical to the graph of corn prices. The latter-'80s feedgrains price reduction—several dollars per bushel—has, until recently, helped mask the 1989 collapse in the prices packers paid for fed cattle.

## 1.2 Executive Summary: *Why* is this happening?

Why did cattle prices fall, 20 years ago, to levels not seen since the Great Depression? What happened in 1989?

In May 1989, Cargill opened its High River, Alberta, beef packing plant. Cargill's entry into this country's beef packing sector marked a dramatic acceleration in the transfer of control of this industry, from a relatively large number of Canadian-based packers operating a large number of plants to two US-based corporations that have concentrated production into a few huge plants.

Also, in January 1989 we implemented the Canada-US Free Trade Agreement (CUSTA), thereby shifting Canada-US market integration into high gear.

In the same period, as part of this process of continental integration, Canada began ramping up cattle and beef exports, mostly to the US. As our cattle and beef sectors expanded and refocused to serve external markets, Canadian cattle producers became overdependent on those exports. This overdependence has contributed to huge costs, including BSE losses, price discounts relative to US cattle, traceability system costs, Country Of Origin Labelling (COOL), and risks of future border closures.

At about the same time—as part of the integration, Americanization, and corporatization of the Canadian cattle and beef systems—levels of captive supply in Canadian feedlots rose. Captive supply is a tactic whereby packers own or control cattle that are being fattened in feedlots in preparation for slaughter. Captive supplies give packers an option: in any given week, packers can bid on cattle from independent feeders or packers can utilize their own cattle. This report will show that captive supplies give packers significant power to push down prices of finished cattle and, thus, to push down prices of feeder cattle and calves.

Why are recent prices half of their 1942-to-1989 averages? What happened in '89? Think Cargill, CUSTA, continental integration, captive supply, and corporate consolidation. For convenience, we could call this the C-5 syndrome. Everything changed in the period around 1989: the location of the packing plants, the owners of those plants, the distribution of cattle in Canada, the connection between packers and feedlot cattle, the ownership of cattle auction yards, the focus of Canadian marketing efforts, and our trade and regulatory frameworks. Most important, the relative power-balance between those who raise cattle and those who buy and process them shifted, in favour of the latter. These major changes occurred in Canada, and changes here mirrored and amplified similar shifts occurring in the US. These

events, on both sides of the Canada-US border, have had the effect of driving down cattle farmers' prices here, in the United States, in Mexico, and around the world.

## 1.2.1 Executive Summary: Why is this happening? Cargill and corporate concentration

To say 1989 was pivotal for the Canadian beef and cattle sectors is to understate. In terms of processing, few of the packing plants that existed in the 1970s or '80s remain today. And today's big plants were opened in 1989 or later. Not only are the plants new and bigger; they also are *fewer*, and as a result many cities and some provinces no longer have a major beef plant (Manitoba, for example). The companies that dominated pre '89 are gone—Canada Packers, Burns, Swift Canadian, Intercontinental Packers. The geographic centre of processing was shifted from one side of the country to the other (from Ontario/Quebec to Alberta). The competitive landscape was re-contoured and re-populated.

In the 1970s and '80s, Burns, Swift Canadian, Canada Packers, Intercontinental Packers, and a host of regional companies operated many medium-sized packing plants spread across Canada. Regions—often even individual cities—had multiple plants. Those plants gave farmers more options regarding where to sell their cattle. As an example, in 1978, an Edmonton-area farmer with slaughter steers or heifers to sell had *five* federally inspected packers to choose from in Edmonton alone (Capital, Burns, Canada Packers, Gainers, and Swift Canadian).[2]

In Alberta as a whole there were 17 medium-sized, federally inspected beef packing plants in 1978, variously located in Grande Prairie (1), Lethbridge (3), Brooks (1), Red Deer (2), Calgary (5), and Edmonton (5).[3] Some will say that those plants were, by today's standards, too small, too inefficient, and too numerous to survive—most killed fewer than 2,800 cattle per week; today's largest Canadian plants can each kill 28,000 per week. Perhaps charges of relative inefficiency are justified. But those numerous plants were also aggressive when bidding on farmers' cattle. Most important, those small, inefficient plants managed to pay farmers *double* what today's mega-plants are paying. Farmers wonder where the benefits of efficiency go.

In contrast to those 17 plants that operated in Alberta in 1978 (including the 5 in Edmonton), today Edmonton has none. Grande Prairie has none. There are none in the Peace River area; none in the northern part of Alberta.[*] Calgary has one plant, operated by XL/Nilsson Brothers (5,000 head per week capacity).[4] High River, Alberta, has one very large plant, operated by Cargill (20,000+ head per week capacity). And Brooks, Alberta, has one very large plant, operated by Tyson (28,200 head per week). A pending sale of the Brooks plant by Tyson to XL may soon leave Alberta with yet one fewer packing company, and probably

[*] In evaluating packer power and corporate concentration and in calculating CR4 numbers (Concentration Ratio of the top 4 firms), this report follows the lead of Agriculture Canada in that it focuses on federally inspected packing plants and excludes smaller, provincially inspected plants. In recent years, provincially inspected plants have made up 6% to 7% of Canadian beef cattle slaughter (AAFC, *2007 Annual Livestock and Meat Report*, Table 20).

with one fewer plant (XL may close its Calgary location). Two other plants—both of them small and independent—operate at Innisfail and Lacombe.[5]

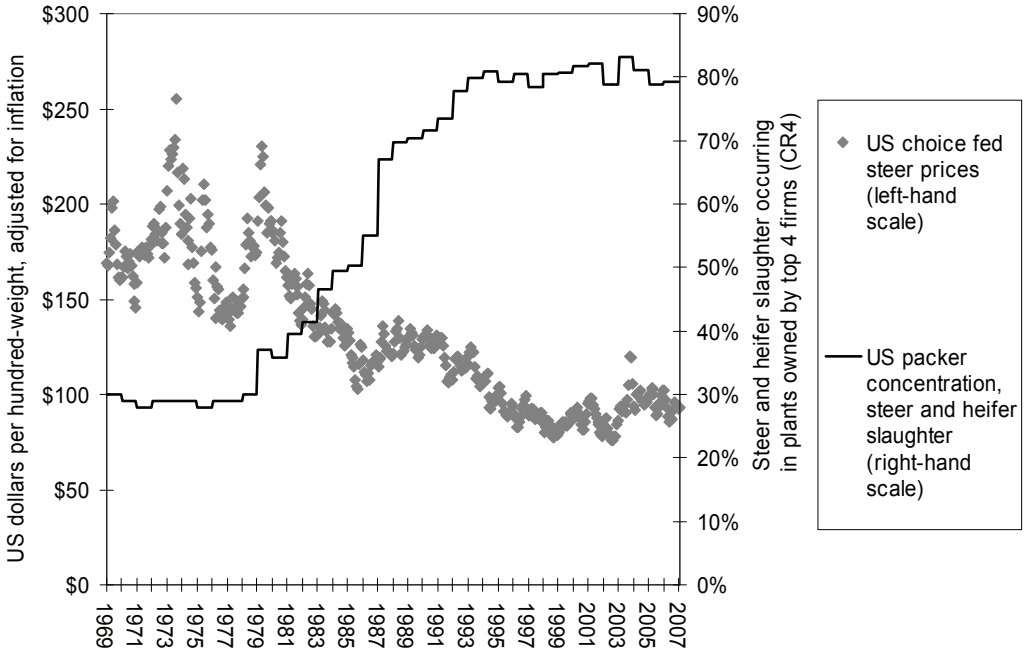
Both the number of plants and (thus) the potential for energetic bidding have fallen sharply since the late 1970s. But a relatively large number of plants is not a relic of that era; as recently as 1987, five companies (Canada Packers, Dvorkin, Gainers, Burns, and Lakeside Packers) operated six mid-sized beef packing plants in Alberta.[6]

As in Alberta, the packing industry in Ontario has gone through a major restructuring during the past three decades. From 17 medium-sized federally inspected plants in 1974,[7] the province today has 3—Cargill (Better Beef), Ryding Regency, and St. Helen's. Manitoba provides another stark example. Down from 7 medium-sized plants in 1974,[8] today it retains only the very small Winkler Meats. (The Main Report gives additional examples of packing-sector restructuring in other provinces. All have fewer plants than they had in the 1970s or '80s.)

Not only are there fewer plants; there are fewer owners. More precisely, the dominant packers today own a greater share of total capacity; ownership is more concentrated. The restructuring that began in the 1980s reached a takeoff point in 1989 with the arrival of Cargill. Shortly after, another large US-based packer, IBP (once known as Iowa Beef Packers), came north to buy the Lakeside plant in Brooks, Alberta. That plant was expanded and came to be owned by Tyson Foods when Tyson bought IBP. Recently, Cargill bought the Better Beef plant in Guelph, Ontario—Canada's third largest. Today, Canada has two or three major packers—Cargill, Tyson, and XL (Nilsson Brothers Inc.). Those three companies (along with a small contribution from a Quebec packer) slaughter and process 89% of Canada's cattle.[9]

Some analysts argue that corporate concentration doesn't matter—that having only two or three major Canadian packers does not push down prices.[10] Or they argue that the small effects of packer concentration are outweighed by the benefits of larger plants and increased efficiency. The bottom line, they say, is that there is little evidence that increasing domination by large packers pushes down prices to farmers. But the numbers show the opposite. There is a very strong correlation between increasing packer concentration and falling prices. And other evidence demonstrates not just correlation, but causation. To begin, consider the following graph of statistics from the United States.

**Figure 3. United States fed (slaughter) steers and US packer concentration January 1969 – December 2006**




Sources: Steer prices from CattleFax ( www.cattle-fax.com ); packer concentration data from United States Department of Agriculture, GIPSA, *Packers and Stockyards Statistical Report*, various years.

The grey diamond-shaped dots in Figure 3, above, show representative US cattle prices (Omaha, Nebraska Choice slaughter steers). The prices are in US dollars per hundred-weight, live-weight, adjusted for inflation. The graph also shows the corporate concentration of US beef packers. Specifically, it shows the market share of the largest four US firms engaged in fed cattle slaughter (steers and heifers), or the "CR4" (the Concentration Ratio of the top 4 firms). The time period is 1969 to 2006 (similar US concentration statistics are not available prior to 1969).

Through most of the 1970s, the four largest US packers slaughtered less than 30% of fed cattle. In 1979, the dominant US packers began a series of takeovers and mergers, concentrating ownership rapidly. Just eight years later, in 1987, the four largest packers had more than doubled their share of fed-cattle slaughter, to 67%. The takeover and concentration continued; by 1994, the big four packers slaughtered 81% of US fed cattle—nearly triple their 1979 share.

Over the same period that the dominant US packers were consolidating ownership, US cattle prices fell by half. If we examine the period of relatively low packer concentration (CR4 <30%, the period from 1969 to 1978), we see that farmers received an average price of $175 per hundred-weight, live-weight. But in the period of relatively high packer concentration (CR4 >78%, the period from 1993 to 2006), farmers received an average price of just $87 per hundred-weight—*half* the price they had received when concentration was low. The two lines in Figure 3 trace a near-perfect inverse correlation—prices fall as concentration rises.

Turning to Canada: we lack the long-term public data on packer concentration that exists in the US. We do, however, have data from the Canadian Government's Agriculture and Agri-Food Canada (AAFC) beginning in the mid 1980s. AAFC numbers show that the level of corporate concentration in the Canadian beef packing sector rose 2½-fold between 1990 and the present. More precisely, the four largest packing companies' percentage of total Canadian slaughter rose from 35% in 1990[11] to 89% in 2007.[12]

**The Tyson-XL sale**

Tyson Foods announced on June 25, 2008, the sale of its Brooks, Alberta, "Lakeside" plant to XL Foods. That sale is still pending—under review by Canada's Competition Bureau.

If the government approves the sale, the situation in Canada will deteriorate still further. Corporate concentration will rise, as will vertical integration. Captive supply levels will probably rise as well.

The Tyson-XL sale, if approved, would become the latest in a long series of moves leading to ever-greater market power for the dominant corporations in the Canadian and North American meat and cattle sectors.

Thus, Canadian beef packing, with its current CR4 of 89%, is even more concentrated than the US sector,* with its CR4 of 79.2%.[13] Further, Canada's beef packing CR2 (the share for the *two* largest firms) can be estimated at 70%;[14] that number is very high relative to other industries, and far higher than that of the US beef packing CR2. Informa Economics says of Canada: "In reality, the packing sector is solidly under control of the two dominant firms."[15] A federal government go-ahead to the XL purchase of Tyson's Lakeside plant in Brooks (thus giving Cargill and XL an estimated 83% CR2) would cement the two-firm domination of Canada.

As in the US, Canadian cattle prices fell as packer concentration increased. Prices today are half their pre-'89 levels, and packer concentration levels today are 2½ times their pre-'89 levels. As evidence below will demonstrate, rising concentration has driven a large part of that price decline. Further, Canadian cattle prices have been affected by concentration on several fronts:

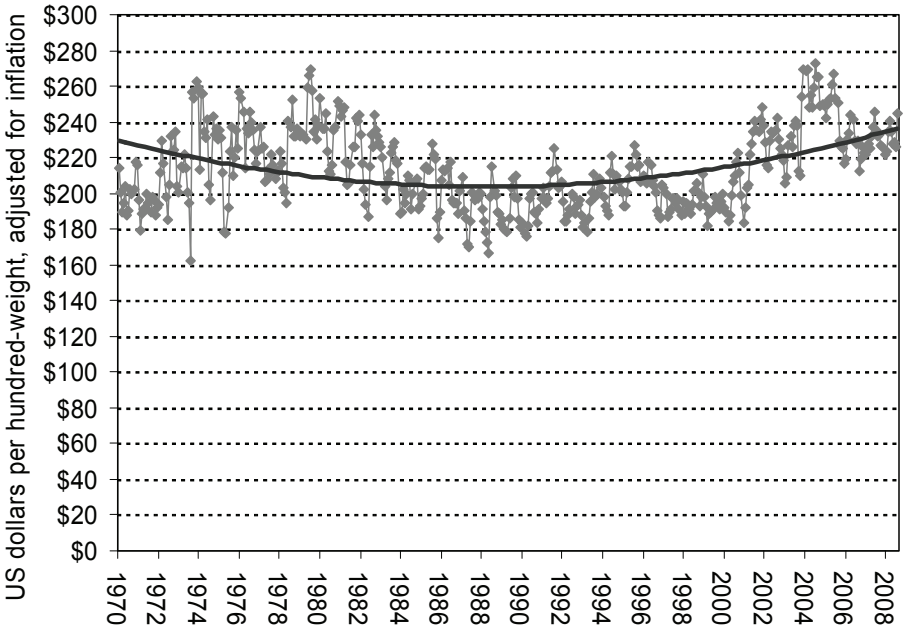
- A two-and-a-half-fold increase in packer concentration levels in Canada;
- A near-tripling of packer concentration levels in the US, which has depressed prices in that country and subsequently put downward pressure on prices here; and
- Increases in corporate concentration among Canadian and US *food retailers*, the markets for most of the beef from Canadian slaughter plants.

Some will counter that it is mere coincidence that cattle prices fell as packer and retail concentration rose. But if during that time of rising concentration, packers and retailers upped their share of beef-sector revenues, then we're looking at more than coincidence: we're beginning to see cause. If packers and retailers turned their increased corporate concentration

* Two minor notes: US CR4 numbers used in this report are for *fed* steer and heifer slaughter. Canadian CR4 numbers are predominantly for fed steer and heifer slaughter, but include some cull cow slaughter. If we had Canadian numbers that separated out fed cattle from cows, those Canadian CR4 numbers would probably exceed 90%. Second, US CR4 numbers include all plants whereas Canadian numbers include only federally-inspected plants. The difference, however, is small: taking only federally inspected plants in the US changes their CR4 number by only about 1%. Despite the preceding, Canadian and US CR4 percentages used in this report provide good indications of concentration in one country relative to that in the other and an excellent indication of changes in concentration over time.

into market power, and turned that market power into a larger slice of the beef-sector pie, then the causal link between rising concentration and falling prices becomes firmer.

**Figure 4. US farmgate cattle and retail beef price spreads (US dollars per hundred-weight, adjusted for inflation) January 1970 – August 2008**



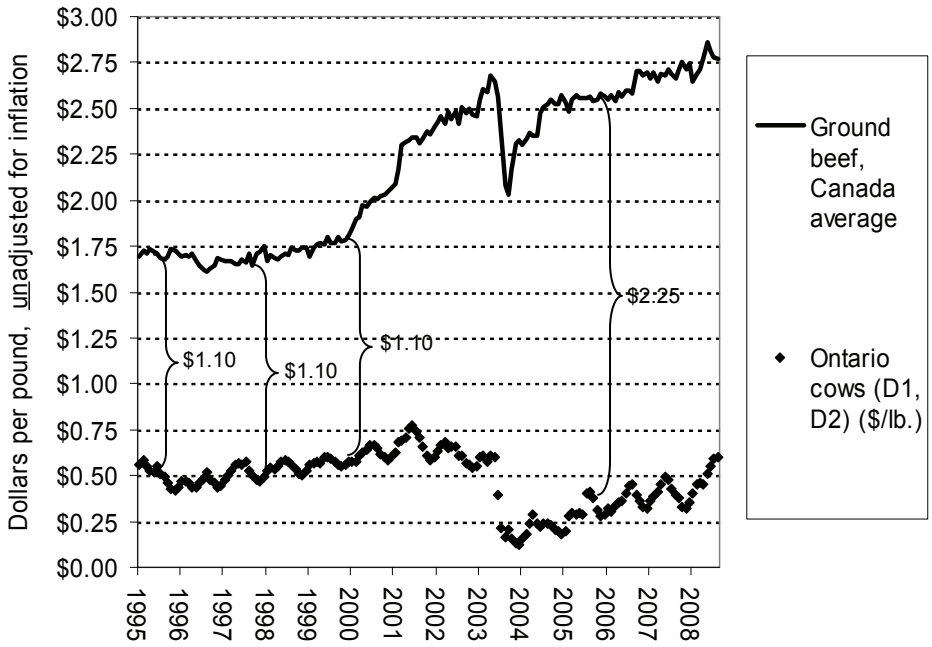

Source: United States Department of Agriculture, Economic Research Service, Data Sets, Meat Price Spreads, www.ers.usda.gov/Data/meatpricespreads/data/historicalpricespreads.xls

Figure 4, above, graphs the price spread between US retail beef and farmers' cattle—the amount packers and retailers take for themselves. The darker, U-shaped line is a computer-generated trendline; it shows longer-term trends within the data. Three clear points emerge. First, the low point in the trendline—the lowest point in terms of the share taken by packers and retailers—occurs in 1989. Since '89, packers and retailers have taken increasing amounts for themselves. Second, packers and retailers increased the amounts they took for themselves despite declining costs resulting from bigger, more efficient packing plants; retail superstores; check-out scanners; etc. Third, recall that fed cattle average prices for the recent year are about $85 per hundred-weight below the 1942-1989 average. Figure 4 shows that, since 1989, US packers and retailers have increased the amounts they take by $35(US$) to $40(US$) per hundred-weight. That's nearly half of that missing $85. These conclusions are based on US figures, but Canadian results will be similar (our big packers and retailers are the same as those in the US). Thus, three pieces of evidence converge: corporate concentration has made packers and retailers more powerful; farmers are getting less; packers and retailers are taking more.

Had packers and retailers continued to take the same amounts they did in the late 1980s, cattle prices today would probably be $35 (US$) to $40 (US$) per hundred-weight higher (all figures adjusted for inflation and stated in current dollars). Moreover, had the trendline in the above graph continued its downslope, as it was trending in the 1970s and mid '80s, had packers and retailers continued to pass efficiency gains back to farmers, farmers' prices today might be $50 (US$) to $60 (US$) per hundred-weight higher.

The following graph provides one more look at increased retailer and packer takings in the beef sector.

**Figure 5. Manitoba slaughter cow and Canadian retail ground beef prices (dollars per pound, not adjusted for inflation) January 1995 – August 2008**




Sources: Ground beef prices from Statistics Canada, CANSIM database; cow prices from CANSIM and Manitoba Agriculture, Food, and Rural Initiatives (on request).

Figure 5, above, shows representative cow and ground beef ("hamburger ") prices. Between 1995 and 2000, the spread between the retail price of a pound of ground beef and a pound of cow (live-weight) held steady at $1.10. Currently, the spread is $2.25 per pound. Packers and retailers have doubled the amount they take. Seen another way, if packers and retailers had held the line and restrained themselves from taking more than $1.10 per pound, with today's retail ground beef prices, slaughter cow prices would be $1.65 per pound ($2.75 per pound for ground beef minus the $1.10 spread)—*four times* the recent-year average price of 40¢ to 45¢ per pound for slaughter cows, live-weight.

Concentration has increased not only among beef processors, but also among food retailers. In brief, US retailer concentration has doubled in the past decade, with the CR5 (Concentration Ratio of the top 5 firms) rising from 24% in 1997 to more than 48% in recent years.[16] The big five food retailers in the US are Wal-Mart, Kroger, Supervalu/Albertson's, Safeway, and Ahold.

In Canada, though there is a scarcity of data, experts estimate concentration levels are even higher than in the US. For instance, this assessment from the Alberta Auditor General:

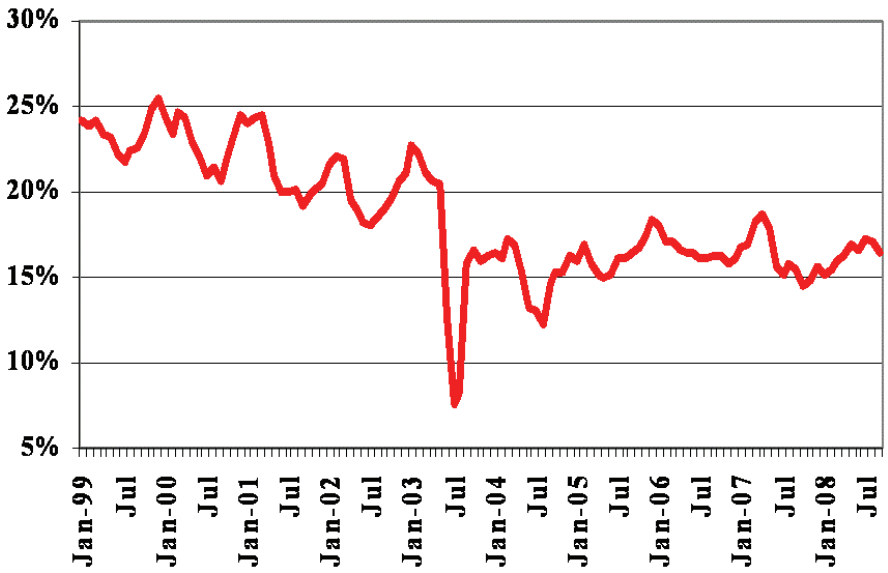
> The downstream retail food sector in Canada is characterized by high levels of corporate concentration; five major retailers (Loblaws, Sobeys, Safeway, Metro, and A&P) control approximately 67% of the market. In most regions in Canada,

there are essentially three retailers that control the market. Safeway operates only in the West, Metro operates mostly in Quebec, and A&P operates only in Ontario. The top three retailers can control up to 80% of the market.[17]

The rising concentration among retailers and their growing market power means it is very likely that retailers may be taking ever-larger portions of the consumers' beef dollars for themselves. Every graph in this section points toward the fact that some group—either packers or retailers—is taking more. Those who reject the idea that packers are pocketing ever-larger profits must entertain the idea that retailers are.

This section concludes with one final graph concerning corporate concentration and farmers' prices. Mainline cattle organizations such as the Canadian Cattlemen's Association are aware of the increased extraction of revenues and profits by retailers and packers. Figure 6, below, is reproduced from CanFax's website.

**Figure 6. Fed steer price as a percentage of the retail beef price January 1999 – July 2008**




Source: Reproduced from CanFax, www.canfax.ca . CanFax cites George Morris Centre, *Canadian Boxed Beef Report*.

Figure 6 shows the whittling-away of the farmers' share of the grocery store beef dollar. Conversely, it reveals the increasing share that packers and retailers are taking. Moreover, it shows that packers and retailers were increasing their share well before BSE hit—the farmers'/feeders' percentage has been declining since 1999 (and probably before). Recently, farmers and feeders have been receiving roughly 16% of the retail value of beef, according to CanFax and the George Morris Centre. In 1999, farmers were receiving about 24%. That difference of 8% is larger than it first appears, because 8% is one-half of 16%—the share farmers are currently receiving. If farmers' and feeders' shares of the retail beef price were restored to the late-'90s level of 24%, fed cattle prices would rise by 50%, or about $42 per hundred-weight—$550 per finished animal. Prices for feeder cattle, calves, and breeding stock would rise similarly.

## 1.2.2 Executive Summary: Why is this happening? Continental integration and export overdependence

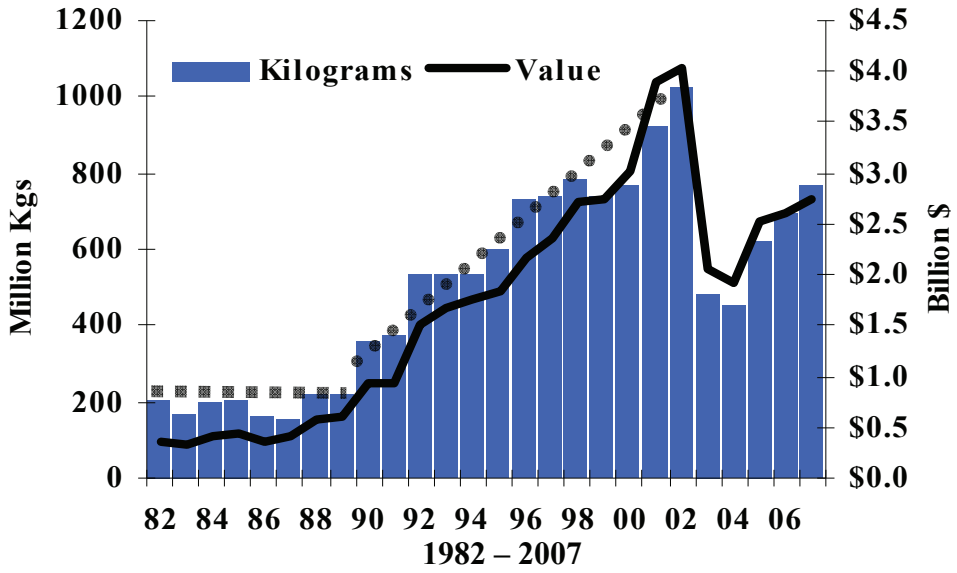
1989 also marked the takeoff point for continental integration—the enfolding of the Canadian cattle and beef sectors into the US system. The mechanisms of continental integration are these:

1. US-based packers—Cargill and IBP (later Tyson)—took over the Canadian packing sector, displacing Canadian-based companies;
2. Canada refocused its cattle and beef sectors toward exports and ramped up production to serve the US and other markets; and
3. The Canada-US Free Trade Agreement (CUSTA) was implemented—effectively fusing the two already partially connected markets.

Mechanism 1—the US packer takeover—is covered in the previous section and further detailed in the Main Report. This section looks at mechanism 2: the drive by governments, packers, cattle organizations, and some producers to spur increased production and to retool the Canadian cattle and beef sectors to serve export markets. This report makes the case that Canada has become overdependent on export markets and that this overdependence is hurting cattle producers today.

Figure 7, below, is reproduced from the CanFax website. CanFax's graph shows 25 years of Canadian cattle and beef exports, in terms of both volume (millions of kilograms) and value (billions of dollars). Dollar values are not adjusted for inflation. This report makes two additions to CanFax's graph: two straight dotted grey trendlines highlight the rapid increase in exports and the 1989/90 takeoff in Canadian export volumes and values.

**Figure 7. Canadian beef and cattle exports (not adjusted for inflation)**




Source: Reproduced from CanFax, www.canfax.ca . CanFax cites Statistics Canada.

According to CanFax, Canadian beef and cattle exports were modest and stable prior to 1990, with volumes below 200 million kilograms and values around a half-billion dollars. In 1990, however, exports turned steeply upward. Between 1990 and 2003, Canadian exports increased five-fold, on a volume basis, and *eight-fold*, on the basis of dollar value. This is a spectacular performance. Efforts to increase production and gain access to export markets have been 100% successful. But the export boom has been a bust for farm families. Over the same period that exports were increasing eight-fold, farmers' prices for feeder and fed cattle were collapsing. As we saw in the long-term price graphs, average prices for recent years are half the values that prevailed pre-1989.

Post-'89 continental integration was swift and aggressive, but incomplete. Canada increased exports, but we never gained *assured* access to the US market, a market upon which we were growing increasingly dependent and to which we had few real alternatives. In 2003, a single cow with BSE closed the US border to Canadian beef and cattle. Export overdependence created a trap. Canadian cattle farmers were urged to thrust their heads into that trap. Then a single case of BSE sprang the trap, pushing down prices that, for a variety of reasons, were already far below historic norms.

The costs from the BSE crisis—largely an export access problem—are in the billions, and continue to mount. Cattle farmers are struggling with other costs resulting from export over-dependence: COOL and a Cadillac cattle traceability scheme, for instance. Export overdependence, an ill-conceived partial-integration into the US market, and costs associated with our status as a net exporter are significant contributors to the current price collapse.

## 1.2.3 Executive Summary: Why is this happening? Captive supply

As explained earlier, "captive supply" in the context of the cattle sector refers to practices whereby beef packing corporations also own or control cattle on feed and finished cattle. In effect, packers organize to become their own suppliers, in competition with feeders and farmers who are also trying to sell finished cattle to supply packing plants. Captive supply is a mechanism to take away sellers' power. In any give week, packers don't *need* farmers' and feeders' cattle; packers have their own.

Packer-owned cattle are the most easily understood form of captive supply. Here's one scenario:

i. Packers own cattle in feedlot pens;

ii. If prices for cash-market cattle rise, packers can stop buying from independent feeders and supply their plants by drawing from captive supply cattle they themselves own;

iii. Packers' withdrawal from cash markets causes prices to fall;

iv. Owners of slaughter-ready fed cattle become worried; (Fat cattle are a perishable product. Unsold, optimum-weight cattle continue to eat costly feed. Cattle that become "overweight" are deeply discounted by packers—by as much as 18%.[18] This

combination of ongoing feed costs and stiff overweight penalties forces finished cattle onto the market.);

v. Packers can then re-enter the markets, buy at reduced prices, supply their plants, and replenish their captive-supply pens.

Owning cattle outright is one way packers organize captive supplies. Another way is to use contracts that do not contain base prices—contracts wherein feeders agree to deliver cattle and be paid based upon auction market delivery-week prices (or based on "plant average" prices).[19] Such contracts often include premiums for hitting quality targets—so-called "grid" contracts.[20] But because packers have the capacity to influence prices at auctions and elsewhere (by altering their bidding or drawing on cattle they own), packers can influence the base prices of the cattle contracted to them. Speaking at the December 2006 annual meeting of Alberta Beef Producers, Kansas State University professor Clement Ward stated: "Packers have an incentive to push the cash price as low as possible. When they do that . . . they are also successfully lowering that grid price. That is something to think about if you are going to use formula pricing."[21]

Here are some assessments of captive supply. The US-based Western Organization of Resource Councils (WORC) has worked on the captive supply issue for many years. According to WORC,

> [US] Meatpackers acquire half of all cattle and hogs they slaughter through what are known as captive supplies. Captive supplies are livestock [that] packers own or control through contracts with farmers, ranchers and feedlot owners. By calling on captive supplies to fill slaughter needs, packers do not have to bid for cattle in an open, public manner. A false period of low demand is created and prices are driven even lower.[22]

Senator Michael Enzi is a Republican from Wyoming. He co-sponsored the Captive Supply Reform Act Amendment to the 2007/08 US Farm Bill. Senator Enzi has stated:

> [C]aptive supply is destroying the health of our family ranches. . . . The packing industry is highly concentrated. Using captive supply and the market power of concentration, packers can purposefully drive down the prices by refusing to buy in the open market. This deflates all livestock prices and limits the market access of producers that have not aligned with specific packers.[23]

Top executives of the biggest packing companies concur: captive supply allows them to push down prices. Speaking in 1988, Bob Peterson, then-Chairman of IBP (now Tyson), said:

> There is a quiet trend towards packer feeding and it is much, much bigger than you think it is. . . . These forward contracts coupled with packer feeding could represent a significant percent of fed cattle at certain times of the year. Do you think this has any impact on the price of the cash market? You bet! We believe a significant impact. . . . In my opinion the feeder can't win against the packer in the real fair play if we go into the feeding and the hedging program.[24]

Canada's captive supply problem mirrors that in the US. Using data provided by CanFax on transactions with the big Alberta-located meat packing plants, Clement Ward (Oklahoma State University) and Ted Schroeder (Kansas State University) calculated that:

> The highest percentage of captive supplies, based on the summation of forward contracts, grid trades, and packer-owned transfers, was 67 percent, in both November 2004 and January 2005. For 2006, *captive supplies usually comprised 50 to 60 percent of the total reported sales in Alberta* [emphasis added].[25]

Captive supply is up sharply in recent decades.* In 1973 and '74, packer-owned cattle made up 1.4% to 1.8% of total slaughter volume.[26] In recent years, packer-owned cattle have made up between 10% and 30% of slaughter volume.[27] And this 10% to 30% portion is just packer-owned cattle, only one of the types of captive supply. As noted above, overall captive supply in Alberta/Canada— packer-owned cattle, formula and grid contracts, etc.—averaged 50% to 60% of total slaughter in recent years, and levels peaked near 70% in some months.

Captive supply interacts with (and is amplified by) the price-depressing power created by packer concentration. These two phenomena—not many competing bidders, and companies not needing to bid if prices get too high—together strengthen the hand of buyers relative to that of sellers. And these bidding advantages can be further amplified if that bidding occurs in packer-owned auction yards (see Main Report section on vertical integration).

## 1.2.4 Executive Summary: *Why* is this happening? Conclusion

The places where profits are created and where they are captured often are not the same places. Profits are created as a result of efficiencies; profits are captured as a result of power. Thus, because market power shifts can trump efficiency gains, even the most efficient can be left bereft of profit.

The relative balance of power in the cattle/beef sector changed as packers became larger and global. The balance changed as packing plants became less numerous, reducing farmers' options for delivery. The balance changed as packers came to own or control more of their cattle supply. And the balance of power changed as markets merged—as trade agreements thrust Canadian and US farmers into a single, hyper-competitive continental market. All these shifts in power triggered similar shifts in the distribution of profits. These power and profit shifts underpin the current cattle price crisis.

Nearly all such shifts occurred on *both* sides of the border. Canadian farmers are suffering as a result of changes here and also as a result of changes in the US. It is, however, a mistake to minimize or discount the effects of events here; to simplistically claim that

* Captive supply is not new, but the high levels of recent years *are* new. A century ago, Pat Burns owned cattle herds and used them to help supply his butchering operations.

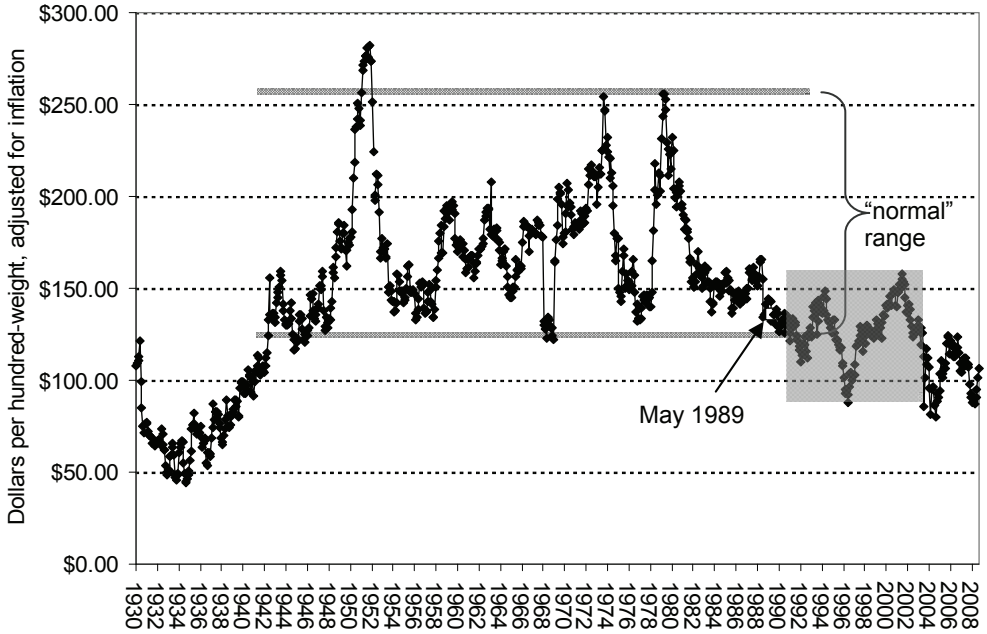
Canadian prices are set in the US. Canadian policies and developments directly affect both Canadian *and* US prices. An example of this is our decision to ramp up production and exports in the 1990s. Had Canada decreased production, as did US producers, North American cattle prices would be higher today. To cite another example, Canada's decision to sign the Canada-US Free Trade Agreement (CUSTA) and the North American Free Trade Agreement (NAFTA) increased continental integration, strengthened the power of the packers, and pushed down prices in all three NAFTA signatory countries. Yet one further example: the takeover by Cargill (and later Tyson) of the Canadian packing sector gave those companies increased ability to move cattle and beef across the border to the detriment of cattle prices in both nations. Finally, dramatically increased levels of captive supply in both Canada and the US have had price-depressing effects in both countries.

Key is this: packers and retailers increased their power in the 1980s and '90s. By doing so, they made farmers relatively less powerful and, thus, less profitable. The mechanisms of this dual shift in power and profit happened on both sides of the border. This report highlights developments in Canada, but it in no way discounts the fact that every advance in power on the part of Canadian retailers and packers was mirrored (and sometimes preceded) by similar shifts in the US.

## 1.3 Executive Summary: A look at prices for cow-calf producers

The preceding long-term price graphs focus on fed (slaughter) cattle. Let's now look at comparable long-term price graphs for feeder cattle (800 to 900 pounds) and for feeder calves (500 to 600 pounds). These are the cattle that cow-calf farmers sell to feedlots (or to backgrounders*) and which the feedlots, in turn, feed, fatten up, finish, and sell to packers.

**Figure 8. Ontario feeder steers, 800 – 900 pounds**
**(dollars per hundred-weight, adjusted for inflation)**
**January 1930 – August 2008**




Sources: Government of Canada (Statistics Canada, CANSIM database; Agriculture Canada, *Annual Livestock and Meat Report* [aka *Livestock Market Review*]; Statistics Canada, *Livestock Statistics*, Cat. No. 23-603; Statistics Canada, *Cattle Statistics*, Cat. No. 23-012) and CanFax.

The graph above shows Ontario prices for feeder steers, 800 to 900 pounds, dollars per hundred-weight, live-weight, adjusted for inflation. (Graphs for Alberta, Manitoba, New Brunswick, and other provinces are included in the Main Report; they show virtually identical patterns.)

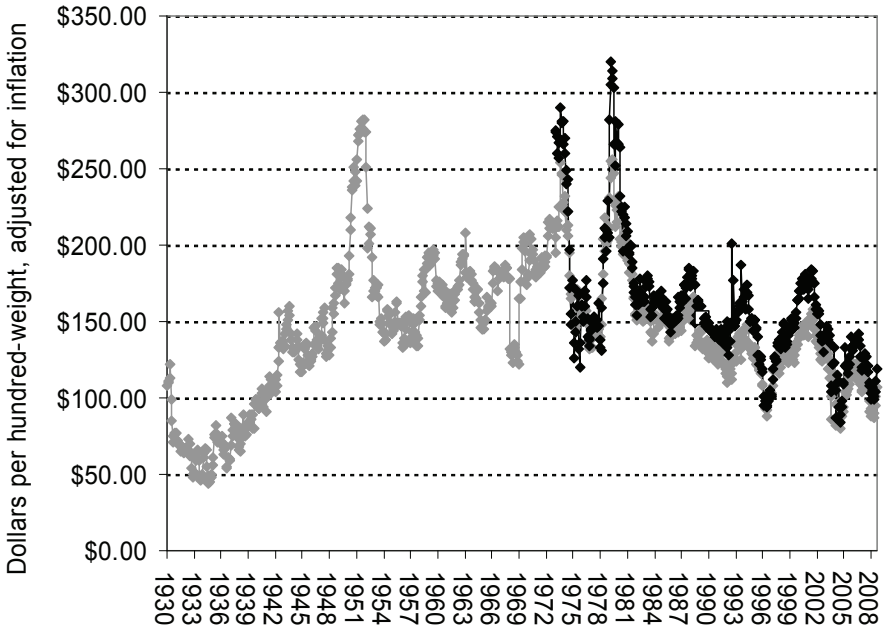
Briefly, we again see several periods: Depression-era prices on the left; then, in the middle, the same nearly fifty-year "normal" phase wherein prices oscillate up and down in the channel shown by the upper and lower grey lines, but prices never fall below $120 per hundred-weight. Next, we see the much lower prices of the 1990s and the first years of this decade (see the grey-shaded box). We see the BSE-triggered price collapse. And we see recent prices reprising those of the latter years of the Great Depression.

* Many feedlots prefer to buy stocker cattle that have been "backgrounded" on grass or hay for several months after weaning. Backgrounders are cattle farmers who buy (or raise) calves and who feed the weaned calves on grass or hay to build frame size and weight before the cattle are sent on to be grain-finished in a feedlot.

There are differences between this graph for 800-to-900-pound feeder cattle and the previous one, for fed cattle. First, there is a lag. While fed cattle prices fell below the bottom of their long-term price channel in 1989, feeder cattle remained in their channel until 1991. This lag is expected; price changes can take time to work their way through the cattle chain. Second, the price collapse for 800-to-900-pound feeder cattle is not quite as pronounced as that for fed cattle. This is also expected; part of the sting of lower packing plant prices was absorbed by the feedgrain price collapse. After 1989, packers pushed prices of slaughter cattle down dramatically, but feeder cattle prices fell slightly less because feedlots' cost of fattening cattle (the cost of feedgrain) also declined.

This isn't to say that the declines in feeder cattle prices have not been devastating. Prices for Ontario feeder steers average $94 per hundred-weight (live-weight) over the past year (September 2007 to August 2008, inclusive). But the price for the nearly 50-year period between 1942 and 1989 averaged *$170 per hundred-weight*. Again, we see recent prices that are not much more than *half* their historic normals. And, again, we see these half-price cattle despite much-touted efficiency gains in the retailing, feeding, and packing sectors.

**Figure 9. Ontario feeder calves (steers), approximately 550 pounds (dollars per hundred-weight, adjusted for inflation) January 1973 – August 2008 (overlaid onto data for 800-to-900-pound feeder steers)**




Sources: Government of Canada (Statistics Canada, CANSIM database; Agriculture Canada, *Annual Livestock and Meat Report* [aka *Livestock Market Review*]; Statistics Canada, *Livestock Statistics*, Cat. No. 23-603; Statistics Canada, *Cattle Statistics*, Cat. No. 23-012) and CanFax.

Figure 9, above, is a composite graph that helps depict calf prices over the long term. There appears to be no consistent calf-price data before 1973.[28] In order to give some idea of long-term prices, Figure 9 overlays 35 years of price data for Ontario 550-pound feeder calves (steers) onto longer-term data for Ontario 800-to-900-pound feeder steers. Because calf prices track prices for heavier feeder cattle after 1973, this report makes the assumption that the same is true before 1973.

Though, again, we cannot know with certainty what calf prices were before 1973, the graph suggests that recent calf prices have dipped near to those of the latter years of the Great Depression. Further, it is likely that average prices for the past year—about $107 per hundred-weight—are not much more than half of price averages for the 1942-to-'89 period. (The average for the 1973-to-1989 period was $184 per hundred-weight.) Price graphs for Alberta feeder calves and for other provinces are included in the Main Report. All display a very similar pattern.

## 1.4 Executive Summary: Several possible solutions

The preceding pages offer a summary diagnosis; the Main Report provides many further details of, and insights into, the various maladies plaguing the cattle and beef sectors. But what is the prescription? What is to be the treatment?

Restructuring a sector is hard. Such a process takes time. Policy-makers must ensure that the costs and benefits of restructuring are both distributed broadly. In the absence of such care, the largest and most powerful players will push all costs onto the smallest and weakest; the 2003 BSE-triggered crisis, with its packer profits and farmer losses, provides a stark demonstration of this make-the-little-guy-pay dynamic.

Restructuring our cattle and beef sectors will be made harder by the fact that Canada has allowed a critical link—our packing plants—to be largely captured by two foreign-based transnationals, Cargill and Tyson. Restructuring will also be made more challenging by the weakened and impoverished state of our cow-calf producers and small- and medium-sized independent feeders; these sectors are financially exhausted and less resilient than in previous decades.

Another impediment to restructuring is the fiction of free, fair, and open markets—a fiction common in cattle-industry publications and at industry meetings. In an age of captive supplies, two-packer control, giant grocery chains, and packer-owned auction yards, the "free market" has become one part nostalgia and one part parody. To make real progress, we need to develop and popularize a more sophisticated, up-to-date, and business-like assessment of market realities. As the former CEO of agribusiness giant Archer Daniels Midland (ADM) famously said in the early years of this decade:

> The free market is a myth. Everybody knows that. Just very few people say it. If you're in the position like I am and do business all over the world, and if I'm not smart enough to know there's no free market, I ought to be fired. . . . You can't have farming on a total laissez-faire system because the sellers are too weak and the buyers are too strong.[29]

Another impediment is that our political class is increasingly timid and deferential in its dealings with the corporate aristocracy. It sometimes appears that the office of government livestock policy is at risk of becoming a wholly owned subsidiary of the packing sector. In private conversations, insiders in the Alberta beef, cattle, and political sectors readily

acknowledge the connections between large feedlots, packers, and some federal and provincial politicians. Astute observers are thus not surprised that packers' interests are well-protected in Edmonton and Ottawa.

Despite these challenges, we must move ahead with bold solutions. The alternative, the status quo, is to watch the majority of cow-calf producers and independent feeders financially ruined and forced out; it is to watch an ever-greater portion of our beef production wealth captured by transnational packers and retailers, extracted from rural areas and from the nation as a whole and shunted off to shareholders and executives at Cargill, Tyson, Wal-Mart, and Safeway. Whether we act or whether we do not, our cattle and beef sectors *will be* restructured; they're being restructured now. Our only decision is this: Will we do the restructuring, or will it be done to us? Are we masters in this house? Or are we servants?

Bearing in mind the need for careful, measured steps as we move to restructure and revive our thoroughly broken beef sector, we can nevertheless propose the menu of solutions that follows:

### 1.4.1 Executive Summary: Solutions: Deal with packer and retailer power

1. **Ban packer ownership and control of cattle, and require that all cattle go through independent auctions or be sold by fixed-price contacts with full disclosure of terms.** Putting a high proportion of cattle through open, independent auctions creates significant benefits: increased bidding intensity, transparent price discovery, enhanced access for small farmers and independent feeders to important markets, opportunities for small processors to buy fed cattle, protection from packer retaliation, and increased trust within the system. Further, not all cattle sold by auction need to make the physical trip to the auction yard. Some of that sale volume could take advantage of advancing technologies in satellite and Internet auction sales, thus saving stress on the animals and transportation costs.

   Though packers must be banned from owning cattle or using captive-supply contracts, some cattle will continue to be sold, under contract, directly to packers. Such contract sales reduce travel, handling, and auction costs. When contracts are used, however, their terms must be submitted to a federal agency and made public within 48 hours of signature. Contracts must also contain firm prices. Fully disclosed, fixed-price contracting allows all sellers and buyers to determine real prices, increases fairness and trust within the system, and helps balance power.

   In addition to raising prices, ending captive supply has other benefits. Cattle feeding can be decentralized and on-farm finishing and medium-sized feedlots can be viable. Decentralized feeding reduces environmental risks from manure concentrations. And decentralized cattle finishing can support decentralized processing and broad community economic development.

2. **Restrain packer power and reverse concentration.** Prices and market power must be disciplined in one of two ways: competition or regulation. It is unlikely the dominant packers would happily submit to regulation of the prices they pay for cattle or the prices they charge for beef. But these same packers are pursuing corporate concentration strategies—acquisitions, mergers, vertical integration—that destroy the disciplines of competition.

   To restore prices to the levels that were routine in the 1940s, '50s, '60s, '70s, and '80s—prices that were double today's levels—we must rein in corporate power and concentration. Only by fixing the power imbalance in the beef chain, can we fix the profit distribution imbalance. Several steps are necessary; these include:

   a. Stop packer mergers, takeovers, and plant sales. Canadian and US governments must stop the proposed sale of the Lakeside plant by Tyson to XL and the proposed takeover by JBS Swift of National Beef and the beef unit of Smithfield.
   b. Work with US governments toward a *de*concentration of the North American beef sector—taking concrete and effective action to create more regional ownership, more diversity of ownership, and more farmer, co-operative, and community ownership.
   c. Create and implement a national meat strategy for Canada that shifts the ownership, location, and conduct of our major packing plants in ways that move us toward a meat system that better serves the economic, nutritional, social, community development, food production, and environmental goals of Canadians in all regions.

3. **Decouple vertically integrated packers.** Canada's dominant packers own feedlots, cattle on feed, feed supply companies, grazing land, cow-calf operations, cattle finance companies, farm and ranch insurance companies, and auction yards.[30] For example, Nilsson Brothers Inc. owns a large portion of western Canadian auction faculties (see Main Report for a list). Such companies have made themselves buyer, seller, and auctioneer.

   If markets are to function, the dominant packers must be made to participate in those markets and to participate in ways that, as much as possible, equalize the power of buyers and sellers. Thus, packers must not own auction rings, they must not own cattle *in* auction rings, and they must not be the finance companies for cattle transactions. Packers must not be allowed to take control of animal feed companies or other strategic links in the cattle/beef production chain. The federal government must compel packing companies to begin a systematic divestiture of their non-processing assets.

4. **Examine and restrain retailer and wholesaler power.** Adjusted for inflation, consumers are paying nearly as much for steak and hamburger as they did 20 or 30 years ago, perhaps slightly less. Adjusted for inflation, cattle farmers are receiving about one-half of what they received two or three decades ago. There is a lot of money going somewhere—hundreds of dollars per head, billions of dollars per year.

   Packers plead poverty, claiming they are not the ones taking the ever-larger chunks from consumers' beef dollars. If we believe packers and their stories of ever-thinner margins, we are forced to conclude that food retailers or wholesalers are abusing packers, farmers,

and consumers alike. To get to the bottom of this market-based cattle rustling, Parliament must convene a judicial inquiry into the distribution of profits within the beef and cattle sectors. Packers and retailers must open their books.[31] Job 1 in solving the cattle price crisis is determining exactly who's taking how much.

## 1.4.2 Executive Summary: Solutions: Increase farmers' power

5. **Succeed in creating farmer-owned packing capacity**. In the wake of the BSE crisis, farmers banded together in several regions with the aim of building and running packing plants. Most did not get far. Some of these failures can be attributed to factors that include: packers expanded their slaughter capacity in order to reduce the need for farmer-owned start-ups; government non-co-operation regarding BSE testing and/or BSE-related Specified Risk Material (SRM) removal; barriers to entry created by unrestrained giantism and concentration within the packing sector; and food retailer concentration making it harder for newer, smaller plants to access sales outlets for their products.

   Nevertheless, a key part of the solution is to increase the number of packing plants and packing companies. There is no reason to think that, given a fair competitive framework, farmers could not prosper as plant owners. Farmers in Quebec are successfully operating the Colbex-Levinoff plant. Several US plants are owned, or partially owned, by farmers and have been for many years. Canadian farmer co-ops in the grain handling and dairy sectors have been tremendous successes (some no longer exist, but their downfalls are the results more of their successes than their failures).

   Clearly, Canada needs a national meat strategy. Core to that strategy would be a shift in location, ownership, and conduct of our beef packing plants. Currently, the sector is poorly structured: it is geographically concentrated (most capacity is in southern Alberta); concentrated in ownership; damaging to cattle farmers in regions that have few or no plants; and non-responsive to citizens or their government (see box in Main Report entitled "Democratic control of our food system . . . vs. Tyson and Cargill"). A decade from now, our packing plants must be spread across the nation, focused on serving local and regional markets, under diversified ownership (especially farmer and farmer/worker ownership), and providing meat of the highest possible nutrition and safety. Achieving those goals will require that citizens and governments use their collective, democratic power to reshape the sector. JBS, Tyson, and Cargill will not deliver these outcomes to Canadians.

6. **Tailor food safety regulations to encourage local abattoirs.** Medium-sized and large farmer-owned packing plants can create alternatives to Tyson, Cargill, and XL. Equally necessary, however, are smaller local abattoirs, especially if we want to develop Canadian markets for organic beef, grass-finished beef, bison, and other specialty livestock; if we want to create local food systems wherein farmers can supply their neighbours; and if we want to foster enterprises that create high-value deli meats and processed foods. Dispersed local abattoirs (especially in concert with efforts to produce organic or grass-finished beef) are also key to reducing greenhouse gas emissions from our meat production system. It is critical that legislators and the Canadian Food Inspection Agency (CFIA) act aggressively

to renovate Canada's food safety and inspection laws, regulations, procedures, and *attitudes* so that these regulatory tools, experts, and approaches foster a thriving and expanding local abattoir and processing sector. A tiered system of regulations and approvals might be appropriate—better matching the stringency of regulations to the scale and activities of the abattoir. Part of that tiered system could be an allowance for limited interprovincial exporting for some abattoirs.

7. **Build collective marketing agencies.** The power imbalance between farmers and packers is dramatic. Tyson is a $27-billion-dollar-per-year company;[32] Cargill is 4 times larger.[33] Either company is ten thousand times larger than our biggest family farms. To offset this power imbalance, governments must work with farmers to create orderly, collective marketing agencies. Such agencies create several advantages:
    a. Higher prices as a result of collective selling power for farmers;
    b. Equitable access to markets for smaller sellers;
    c. Equal pay for animals of equal value; and
    d. Protection from packer and feeder power, retribution, and/or abuses.

    Farmers and policymakers will have to work together in good faith to determine exactly what form these collective marketing agencies should take (possibilities include single-desk exporting agencies; single-desk, orderly marketing within Canada; etc.). Further consultation and research are needed on this issue, but a top priority in terms of increasing farmers' power and profits within the system must be efforts to create orderly, collective marketing agencies. Packers and retailers understand the business case for market power; farmers must also.

For descriptions of past collective marketing and stabilization programs (the Saskatchewan Beef Stabilization Plan and the Manitoba Beef Stabilization and Marketing Plan), see the Main Report.

## 1.4.3 Executive Summary: Solutions: Refocus the sector and pursue an alternative vision

8. **Test for BSE and ban artificial hormones.** Many farmers recall being told that Canada shouldn't test all cattle for BSE because doing so is too costly. Now, however, we have SRM removal costs that some say are nearly as high as those for BSE testing. Further, new urine-test screening for BSE[34] promises to detect the presence of the disease with 100% accuracy[35] and promises both to reduce costs (perhaps below $10 per animal)[36] and to cut the waiting time for results (perhaps below 4 hours).[37] Canada should implement comprehensive BSE screening to ensure BSE-free status for all our beef.

    In addition to BSE testing, Canada should phase out artificial hormones. These hormones are often used in large feedlots to accelerate weight gain in feeder cattle. Also, heifers (young female cattle that have never been bred and never calved) sometimes

receive a synthetic progesterone in their feed to suppress the onset of estrus (heat) and maintain "normal" behaviour and feed intake.[38] The European Union continues to restrict entry of Canadian and US cattle because of EU concerns that meat products from animals raised with implanted hormones may cause cancer in humans.[39]

The continued use of artificial hormones combined with a de facto ban on comprehensive BSE testing *traps* Canadian cattle within North America, right where the dominant packers want them. Comprehensive BSE testing and the termination of hormone use would help farmers in several ways:

a. diversify Canadian markets;
b. reduce food safety-related border closures (the US border may not have closed to Canadian beef if comprehensive testing had given our meat 100%-BSE-free status);
c. give us more negotiating power with packers;
d. encourage European- and Asian-based packers to set up here; and
e. as a result of all of the preceding, increase prices to Canadian farmers.

9. **Dramatically reduce antibiotic use.** In North America, antibiotic and antimicrobial use in livestock production is several times higher than its use in human medicine.[40] Livestock usage is thousands of tonnes per year.[41] This massive antibiotic volume serves two purposes: it makes possible the confinement of tens-of-thousands of cattle on a few hundred acres in feedlots, and it serves to accelerate growth and increase feed-conversion efficiency.

   Limiting livestock antibiotics to therapeutic use only (administering them only to animals that are actually sick) and thereby dramatically reducing overall use would:

   a. spur extensification and decentralization of livestock finishing, to the benefit of independent feeders, cow-calf producers, mixed farmers, and rural communities;
   b. slow the development of antibiotic-resistant bacteria, thus saving human lives; and
   c. help open new, higher-price markets, including those in the European Union.

10. **Develop markets for grass-finished beef within Canada and North America.** Grass-finishing has benefits and drawbacks. Some of the benefits include:

    a. allowing cow-calf producers to finish beef, rather than putting cattle into feedlots;
    b. reducing hormone and antibiotic use as cattle are finished naturally and in surroundings that do not require intensive medication;
    c. disconnecting a portion of cattle finishing from feedgrain-price fluctuations—fluctuations that threaten to become increasingly severe;
    d. reducing purchased inputs, making cattle farms more financially secure and resilient;
    e. reducing petroleum use in, and greenhouse gas emissions from, beef production;
    f. maintaining grass cover, safeguarding erodible soils, and creating wildlife habitat;
    g. reducing environmental risks from large manure concentrations; and

h. expanding global food supplies by reducing grain and grainland use in beef production.

There is also evidence that grass-finished beef provides superior nutrition for humans. As an example, proponents of grass-finished beef point to ratios of Omega 3 to Omega 6 essential fatty acids in grass-finished beef that are superior to ratios in grain-finished beef.

11. **Embrace country-of-origin labelling.** Citizens have a right to know where their food comes from; to know if their dinner roast is from Canada or New Zealand or Uruguay. Most people would prefer to know even more: i.e., whether their Canadian roast is from Southern Alberta, Central Manitoba, or Eastern Ontario. Canada can use country-of-origin labelling to meet the information needs of consumers, help build diversified local markets, reduce food miles, and move our meat system toward increased social, economic, and environmental sustainability.

    There is fear in Canada around US Country of Origin Labelling (COOL). This fear is a reflection of our export dependence (i.e., US farmers do not fear Canadian country-of-origin labelling). There is no doubt that US COOL will be costly for Canadians. But as we reduce export dependence and re-localize Canadian food systems, country-of-origin labelling here can help citizens and farmers communicate and work together to foster local production and economic development. As JBS and other giants take over, restructure, and globalize the beef system, Canadian country-of-origin labelling and a clear focus on local, high-value Canadian markets may be our best defence against a rising wave of globally sourced discount beef.

12. **Focus on Local Food.** Implicit in many of the preceding points is the idea that a mega-scale, long-distance, foreign-controlled food system is the wrong one for Canada. Families in St. Catherines, St. Albert, and Ste-Agathe want Local Food—food from local family farmers, processed in facilities that create local jobs, all under the democratic control of citizens and their governments. They want food that is safe and nutritious, food that is produced sustainably, and food that is diverse and interesting. Canada's food policy, and by extension our policies on cattle raising and meat production, should as much as possible aim to deliver the Local Food outcomes Canadians want.

13. **Better balance Canadian beef production with domestic consumption.** Export overdependence and a failed experiment in continental integration have proven extremely costly: BSE losses in the billions, high-cost traceability systems, COOL, Canadian prices that are "US minus," and the threat of future border closures from foot-and-mouth or politics-as-usual. Further, over the past two decades, as both herd size and export levels have increased, farmers' prices from packers have decreased.

    Better balancing Canadian production to demand will remove our hypersensitivity to US political twitches, potentially increase our prices to "US plus", remove a number of costs that are largely outgrowths of our need to placate foreign markets, and better balance the overall North American supply and demand situation.

    The necessary herd reduction is more modest than many think—an approximately one-third reduction from the current herd size and production level. And the pay-off, in terms

of significantly higher net returns per animal, can be much larger than many suspect. Moving prices up to levels that were normal between 1942 and 1989 could triple or quadruple farmers' *net* returns on feeder cattle and calves, their profit per animal. The Main Report (including Appendix A) looks in detail at how much of a reduction is necessary and how this option would affects farmers' bottom lines. It also looks at some of the challenges involved in reducing the Canadian herd: retaining packing capacity, questions of returns on fixed capital, maintaining an optimum herd size if prices begin to rise, etc.

A key point is this: **Reducing the overall Canadian herd need not mean fewer head of cattle on individual family farms.** For instance, if we ban packer ownership of cattle, and if we change the way fed cattle are bought and sold, family farms can finish cattle. If 30% to 40% of the cattle currently finished in large feedlots could be finished on small- and medium-sized family farms, those farmers' herds could *increase,* even as overall production came down to balance with domestic consumption.

Another critical distinction is necessary: In advocating a move away from export dependence, **this report isn't suggesting Canada should cease to export.** Canada will always ship cattle and meat out, and in. But this report strongly suggests that we optimize production levels, as the US does—importing and exporting beef and cattle, but matching production to domestic consumption in order to avoid the trap of export overdependence. We want to trade, but we want to avoid being trade *dependent*.

Before moving forward on herd reduction, we'll need a careful plan—a plan that integrates herd reduction with other measures such as the end of captive supply; a plan that ensures that any herd reduction will leave family farm cow-calf producers and small- and medium-sized feeders better off. Though the objectives and strategies for any plan would have to be worked out democratically by farmers and others, the following goal, or one like it, could serve to focus discussion:

> *We should aim for a Canadian cattle sector wherein a well-managed 140-cow cow-calf operation (with some cattle finishing, if desired) provides the lion's share of a dignified living to a farm family. Similarly, we should also aim for a sector wherein smaller herds on mixed farms can be significant economic contributors to the overall financial well-being of those farms.*

Attaining such a goal would require that farmers clear $300 to $400 per calf. As noted above and detailed in the Main Report, recent calf prices are approximately $420 per head below 1942-to-1989 averages. Thus, the preceding goal, though challenging, is not impossible. To the contrary, the goal is more or less a restatement of a status quo that held for nearly 50 years, from the end of WWII to 1989. Given large increases in disposable income among Canadians, advances in technology, and increases in efficiency, it is hard to see why it should be difficult to do in 2010 what we consistently succeeded in doing in 1960 and 1980.

All evidence points toward the need to reduce the herd, and toward large benefits if we do. Oversupplying packers only reduces farmers' power and prices. The most business-minded among us should be the first to point out that *current prices are clearly signalling that farmers should supply fewer cattle*. This report advocates that we take those market signals seriously, and that we proceed as the successful corporate players do: maximize both our power and our profits, not simply our output.

### 1.4.4 Executive Summary: Solutions: Immediate needs and process issues

14. **Get public money into farmers' hands immediately.** This report charts a new direction for the cattle and beef sectors. It lays out a series of restructuring measures that will help drive money down to the level of family farm cow-calf producers and small- and medium-sized independent feeders. But it will take time to restructure, and time for changes in relative power to translate into changes in relative profitability. In the interim, farm families need immediate aid. The alternative is that Canada will lose a significant part of its cow-calf sector, lose hard-won knowledge about place-based cattle rearing, and lose our ability to produce food sustainably on much of our fragile grazing land.

    Many groups have called for immediate aid. To this chorus, the NFU will add one key point: All such payments must be capped and targeted. Taxpayer money must go to (and stay with) family farms; it must not be captured by packers or packer-linked feeders. The errors of the BSE programs must not be repeated. Capping and targeting farm support payments represents a *minimum* effort to ensure that the benefits of these programs remain at the farm level.

15. **Give farmers a choice among cattle organizations to fund.** If you talk with cow-calf producers or medium-sized feeders, you soon hear a version of the following: The Canadian Cattlemen's Association (CCA) and some of its western affiliates are too often under the influence of those who run the big feedlots. Many of those big feedlots, in turn, are closely aligned with the big packers—Cargill, Tyson, XL. Thus, feedlots (directly) and packers (indirectly) exert disproportionate power over the CCA and some of its affiliates. As a result, those organizations often fail to speak effectively on behalf of family-farm cattle producers.

    In addition to this packer and feeder influence, there is a *structural* reason why some cattle organizations advance solutions counter to the interests of many cattle producers: namely that most provincial cattle organizations and the CCA receive their funding based on the number of cattle marketed. This inclines them to be more sensitive to cattle numbers than they otherwise would be, and leads them to support policies that promote maximum production. Further, cattle organizations' per-head funding structure makes them less sensitive to the loss of farms and farmers, since reductions in those numbers do not translate into reduced funding.

By their decisions to fund cattle organizations and other commodity groups on a per-unit basis, governments lock in certain objectives and outcomes:

i. a foundational commitment to maximize production (to "grow the industry");
ii. a push for exports, in order to realize objective i, above;
iii. a push for trade agreements (and "market access") in order to realize objective ii;
iv. ever-greater integration into the US and foreign markets, as a result of ii and iii;
v. increased risk related to border closure or tariffs, as a result of i, ii, and iv; and
vi. reduced power to shape our future, as US integration, trade-agreement restrictions, and export overdependence all remove tools from our policy-solution toolbox.

Key to restoring the effectiveness and farmer focus of cattle organizations is changing the way these organizations are funded. Three possible funding models come to mind:

a. per head,
b. per farm, and
c. per dollar of market value.

Moving to option b. or c. (or a combination of both) would remove incentives for cattle groups to push for maximum production and, instead, guide these organizations toward policies that maximize the number of cattle farmers and those farmers' per-head prices and net returns.

What a different organization the CCA would be if it were paid per-farmer instead of per-animal. What a different organization it would be if it were paid based on the selling price of cattle instead of on how many are sold. What different policies we'd have. Imagine.

Family farmers have the largest investment in the beef production system; cow-calf producers' assets *far* outweigh those of packers and feeders combined.[42] And family farm cow-calf producers and smaller feeders create the bulk of the employment in the system.[43] Thus, it is completely illegitimate that the current CCA-dominated policy-development system discounts the interests of family farmers and elevates the needs of packers and packer-aligned feeders. In terms of policy development and representation, cattle farmers need more choice, more competition, more voice, and more democracy. To this solution should be added changes in the way cattle organizations are funded, in order to maximize their responsiveness to actual changes in the circumstances for farm families. Giving farmers the option to change organizations and giving organizations direct feedback (through their funding levels) as to the success of their policies would lead to better organizations and superior policy solutions.

16. **Use government policy tools to encourage appropriate-scale family farm production.** Livestock production is trending toward giantism. Hog barns once housed hundreds of sows; now they house thousands. Large feedlots once finished thousands of steers per year; now the largest in Canada finish more than one hundred thousand, the largest in the US more than a million. In one version of this story, governments are helping drive this giantism (in the hog sector, for instance). In another version, governments are "neutral,"

simply along for the ride at a time when intensification, concentration, and industrialization of food production are "inevitable." It matters little which version of the story we accept: There is an alternative.

Governments must act as counterweights to the forces driving us toward giantism, industrialization, corporate takeover, and the destruction of family farms and local businesses. Governments must advance *citizens'* interests, use public policy tools to advance the public good, and work with citizens to identify social, aesthetic, environmental, and community-development goals for food production. Necessary steps include:

a. Capping and targeting taxpayer-funded support and bailout programs, so that these programs counteract a push toward concentration and giantism;

b. Promoting diversity within the livestock sector; giving financial incentives for organic, local, alternative, and grass-fed production; and

c. Enforcing environmental regulations in ways that recognize that small- and medium-sized, dispersed operations create less risk for the environment than huge operations do.

Cargill, Maple Leaf, Tyson, and other agribusiness corporations have put their assembled weight behind the project of driving food production toward giantism and industrialization. Our democratically elected leaders must counterweigh that corporate push. Doing otherwise is to stand as accomplice to both the corporate takeover of the food system and the liquidation of the family farm.

## 1.6 Executive Summary: Conclusion

Adopting the solutions listed above could dramatically increase both the power *and the profit* of cow-calf producers, small- and medium-sized independent feeders, and breeding stock producers. The solutions above could slow, then reverse, the loss of family farms. And these solutions could create more resilient and sustainable cattle and beef sectors in Canada.

The debate surrounding the Canadian cattle sector—both problems and solutions—has been impoverished. Its historical timeline has been too short and its analytic framework too narrow. The debate has been constrained and impoverished by misplaced ideologies and by deference to the most powerful in the system. We've misdiagnosed, and we've misprescribed.

But now we have a wreck. We have a cattle/beef sector addicted to markets it cannot consistently access. We have a string of crises and challenges: BSE, COOL, an unstable dollar, etc. We have cattle prices that are half their WWII-to-1989 averages. We have billions of dollars of public money flowing into the sector to backfill the profit-taking of powerful retail and processing corporations. We have growing environmental concerns and food safety scares. And we have a beef sector that is increasingly based on mega-scale operations and decreasingly able to contribute to the economic development of thousands of communities across Canada.

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We have a crisis. We have a need for new thinking. We have a need for bold solutions. There will be resistance. There will be near-hysterical attacks on those who threaten the status quo. But we must prevail. We must reverse course. We must talk about corporate power and captive supply and about the profits of the dominant players. We must restore balance and equity. We must return our family-farm cattle producers to stability and profitability. We must act now. We must succeed.

**The National Farmers Union hopes that you have found useful this Executive Summary of *The Farm Crisis and the Cattle Sector*. The NFU welcomes the debate that we are sure this report will generate. Please e-mail your comments to nfu@nfu.ca , or fax them to (306) 664-6226.**

**The full report is available by mail, on request, from the National Farmers Union office. To order a copy, call (306) 652-9465 or email nfu@nfu.ca . You can also download the full report (3MB) from www.nfu.ca . The full report and this Executive Summary are both products of a large number of NFU family-farm cattle producer members pooling their expertise and insights. The thousands of family farmers who make up the NFU extend their sincere thanks to the many expert reviewers who read early drafts of this report and gave their recommendations. This document is better because of your help.**

**If you value this work and this analysis, please contribute financially. If you want to add your support to the movement to create real solutions for family-farm livestock producers, become a member of the NFU or send a donation. To join or to donate, go to http://nfu.ca/store/membership.html , call (306) 652-9465, or mail a cheque to National Farmers Union, 2717 Wentz Avenue, Saskatoon, SK S7K 4B6.**