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national farmers union
In Union Is Strength

Canadian Policy and the Farm Crisis

**A Report by the National Farmers Union
to the Prime Minister's Caucus Task Force
on Future Opportunities in Farming**

September 11, 2001

Saskatoon, Sask.

Preface

The National Farmers Union (NFU) thanks the Task Force for this opportunity to present the NFU's views on agriculture, the farm crisis, and Canadian policy.

The NFU is the only voluntary, direct-membership national farm organization in Canada. Founded in 1969 and chartered by an Act of Parliament in 1970, The NFU works on the development of economic and social policies which will maintain the family farm as the basic food-producing unit in Canada.

The NFU represents thousands of family farmers across Canada. NFU members produce a wide range of commodities and believe that the problems facing farmers are common problems, and that producers of various commodities must work together to advance effective solutions.

The NFU believes that agriculture should be economically, socially, and environmentally sustainable. The decimation of rural communities, growing environmental problems, declining farm numbers, and the present farm income crisis cast doubt on the sustainability of the current high-input, export-oriented, expansionist model.

The challenge for farmers and the government is to have the courage to break free from current policies and practices which have yielded so little fruit, and to forge a new direction for farmers and rural Canada. This report is part of the NFU's contribution to that important effort.

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The Canadian Policy Framework

Over the past two decades, Canadian politicians and bureaucrats have implemented a number of policies that have affected farmers, rural communities, and the rural economy. Many of these policies are new: often opposite to the policy directions of previous decades. Together, these policies amount to a restructuring of rural Canada and the Canadian food production system. Key policy initiatives include:

- A focus on increasing Canadian agri-food exports and working to eliminate “trade barriers” and “distortions” by signing trade and investment agreements such as the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) agreement;
- Deregulating railways and grain transportation and withdrawing government involvement and funding;
- Promoting genetically engineered (GM) crops and other agricultural technologies;
- Re-fashioning Canada's safety net structure;
- Moving toward more “market oriented” agricultural marketing structures; and
- Reducing the number of farmers and rural communities.

This paper will examine the major components in Canadian agricultural policy and rural policy and examine how those policies may be linked to the current farm income crisis and the economic and social disintegration in many parts of rural Canada.

The Farm Crisis

As graphs in this paper will demonstrate, after 50 years of relative stability, Canadian net farm incomes today have fallen to 1930s levels. That incomes have fallen so far at a time of relative prosperity and growth in the economy as a whole—quite unlike the economy of the 1930s—requires an immediate and thorough explanation.

For farm families across Canada, the protracted income crisis is humiliating. Hard-working husbands and wives and sons and daughters on third-generation farms are being forced off the land—made failures at their lives' work. These people feel shame and self-doubt. They face uncertain financial futures. Often, the stress of losing their farms spills over into alcoholism, broken marriages, or, in extreme cases, suicide.

Those who hang on are subjected to tortuous stress as they face all the normal hardships and risks of farming while also carrying sleep-depriving debt-loads, worried every time the phone rings that it might be the banker or a local supplier demanding money. Canada's rural food production infrastructure, perhaps the best in the world and built up at the cost of so much toil and sacrifice over the past century, is being smashed in a generation. The current farm income crisis is folly and waste and pain.

The economic crisis extends beyond the farms to rural communities and rural infrastructure. In Western Canada, increasing heavy truck traffic and inadequate maintenance funds are combining to destroy the roads. Government's deregulation of the railways has spurred those companies to tear up branchlines. Grain companies are tearing down and burning elevators. And towns and villages, vibrant just a generation ago, are emptying—their businesses and schools closing and their sons and daughters leaving.

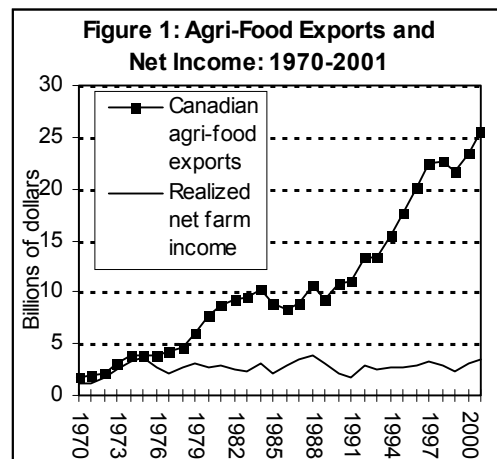
In the face of such loss, waste, and destruction, there are two possibilities: Canadian federal and provincial governments' policies have been inadequate to deal with the problems in rural Canada; or those policies have, to a large extent, caused or exacerbated the problems in rural Canada. This report will marshal the evidence for the latter alternative.

Trade and Globalization

The push toward increased trade and globalization is the most important government policy affecting Canadian farmers and rural communities today. Trade agreements such as the Canada-U.S. Trade Agreement (CUSTA), the North American Free Trade Agreement (NAFTA), and the World Trade Organization (WTO) agreements have not only increased exports and altered the rules of trade, but they have also radically restructured the economy within which Canadian families farm and rural communities exist. Most important, and usually overlooked, these agreements dramatically reduced the relative market power of farmers and, hence, the power that farmers can use to obtain fair and adequate prices and profits from an increasingly global agri-food system.

Canadian governments have worked aggressively to increase agri-food exports. In 1993, federal and provincial governments set an ambitious target of doubling agri-food exports to \$20 billion by 2000. Having accomplished their goal by 1996, well ahead of schedule, federal and provincial Ministers pledged to redouble exports to nearly \$40 billion (4% of world agri-food exports) by 2005.¹

Over the past 25 years, Canadian agri-food exports have increased six-fold—from \$4 billion in 1975 to approximately \$25 billion today. As Figure 1 demonstrates, however, farmers' net incomes have *fallen* over the same period. The current farm income crisis comes in spite of Canada's tremendous success in winning market access and finding foreign customers.



Over the past generation, Canada and its farmers did everything we were told: We doubled exports and doubled them again; signed the NAFTA and the WTO agreement; cut subsidies and tariffs; expanded farm size and cut the number of farmers; adopted the latest technologies and made significant capital expenditures in new equipment. Canada has embraced and implemented every aspect of the free-trade, globalization model. And the result is the worst farm income crisis since the 1930s. What might

¹ This latter goal was actually proposed by the Canadian Agri-Food Marketing Council, a private sector advisory group that includes representatives of Maple Leaf Foods, Cargill, and McCains.

account for this seeming paradox of tremendous success in increasing international sales accompanied by a crushing farm income crisis at home?²

Agreements such as the CUSTA, NAFTA, and WTO are generally understood to be “trade” agreements or “free trade” agreements. Most people understand these agreements as mechanisms to increase trade between countries, to yield the prosperity that David Ricardo predicted in his theory of Comparative Advantage. However, the real-world effects of these agreements reach *far* beyond the benign goals of increasing sales of Canadian wheat to Iran or potatoes to the U.S. For farmers and their net incomes, increased trade and exports may be one of the *least significant* effects. Much more important for farmers—perhaps completely overwhelming any potential benefits of increased export sales—may be the effect that these agreements have on the balance of market power between farmers and the agribusiness corporations with which farmers must do business.

For farmers, so-called trade agreements do two things. By removing trade barriers, these agreements erase borders and force the world’s one billion farmers into a single, hyper-competitive market. *Simultaneously*, these agreements facilitate waves of agribusiness mergers that have the effect (and probably the intent) of nearly eliminating competition for these corporations.³

Economists agree: as competition increases, prices and profits decrease, and vice versa. Thus, by increasing competition among farmers, so-called “trade” deals predictably decrease or eliminate profits. And by fostering a dramatic *decrease* in competition among agribusiness corporations, trade deals dramatically *increase* profits for these companies. Trade agreements may increase trade but, much more importantly, they radically alter the relative size and market power of the various players in the agri-food production chain (see sidebar.) Twenty-five years ago,

The Agri-food Chain

To understand the farm crisis, you must understand the family farm in its context: the agri-food chain. At one end of the chain are the oil and natural gas companies. At the next link, fertilizer companies turn natural gas into nitrogen fertilizer. Next come chemical and seed companies, machinery companies, and the banks. In the middle sits the family farm. Downstream are the grain companies and railways, packers and processors, retailers and restaurants.

The NFU’s February 17, 2000 report, “*The Farm Crisis, EU Subsidies, and Agribusiness Market Power*” noted that, other than the farmer link, every link of the agri-food chain is dominated by between two and ten multi-billion dollar transnationals. Further, every link other than the farmer link is characterized by large profits. That report concluded that farmers are starving economically within an agri-food chain awash in hundreds-of-billions of dollars and that the farm income crisis is caused by an imbalance in market power and a resulting imbalance in prices and profits within the system.

² If you make a list of the farm sectors that rely most heavily on exports—grains, oilseeds, hogs, etc.—and a list of the sectors hardest hit by the farm income crisis, you will have the same list. Sectors that focus on supplying the Canadian market—dairy, eggs, poultry—have largely escaped the crisis.

³ Ironically, merging companies almost always claim that they are doing so to be “more competitive.”

farmers were buying tractors made by Allis Chalmers, Versatile, White, Massey Ferguson, International Harvester, Case, John Deere, Ford, and Steiger. Today two major tractor manufacturers dominate the world market: John Deere and Case/New Holland. Through mergers and takeovers, these corporations have restructured themselves into a duopoly. This dramatic reduction in competition and increase in market power was facilitated and spurred by globalization and trade agreements. In 2000 these two companies had combined revenues of approximately \$34 billion.

In Canada today, three companies retail and distribute the bulk of our gasoline and diesel fuel, three produce most of the nitrogen fertilizer, nine make our pesticides, and four control the seed market. Downstream from the farmer we find eight major grain companies, two railways, and two major beef packers. Three companies make most of our pasta, four mill most of the flour, four make our cereal, and three make soft drinks. In any given province, two or three companies dominate the retail food market and a handful of restaurant chains are taking an increasing portion of restaurant business. The tiny number of players that dominate each sector would seem to indicate a low level of competition, especially when examined relative to the world's one billion farmers.

A rules-based system?

Proponents of the NAFTA, WTO, and similar agreements argue that if such agreements have no other benefits, at least they create a rules-based system. Proponents imply that without such agreements, the world trading system would spiral toward anarchy.

Trade agreements, however—like human rights, environmental, defense, and other international treaties—are not equally binding on all parties. The dominant global powers enjoy much more latitude and less fear of being held to the rules. One need only look at EU and U.S. subsidy levels and programs and the Canadian government's professed inability to implement programs even half as rich to see that while we do have a rules-based system, there is one set of rules for countries like Canada and another for the U.S. Those needing additional examples need only look at recent U.S. actions on P.E.I. potatoes, nine U.S. challenges to the CWB, and challenges to our milk supply management system. Outside of agriculture, we have the examples of softwood lumber and salmon. Moving beyond trade, we see U.S. actions in defiance of defense, environmental, and human rights treaties. Only the naive or superstitious believe in the absolute power of paper agreements to control powerful nations.

Some may question the assertion that trade agreements increase competition for farmers and subsequently decrease their profits, and that these agreements have the opposite effects on agribusiness corporations. However, a look at net farm incomes over the past 75 years strongly supports this assertion.

Figure 2, below, graphs Ontario per-farm net farm income adjusted for inflation. Figure 3 provides the same graph for Saskatchewan. Data for most other provinces are similar. The graphs show three distinct periods. Things were very bad in the 1930s and net income on the average farm approached zero. Then, for 50 years, net incomes were relatively stable—fluctuating in a range, but never falling below \$10,000 per

farm. Then, 12 years ago, net farm incomes dropped dramatically and stayed down. The last good year for farmers in many provinces—the last year of the 50-year period over which net incomes did not fall below \$10,000 per farm—was 1989. What happened in 1989? Canada signed its first major trade agreement, the Canada-U.S. Trade Agreement (CUSTA).

Figure 2: Ontario Per-Farm, Realized Net Farm Income, Adjusted for Inflation, 1926-2001

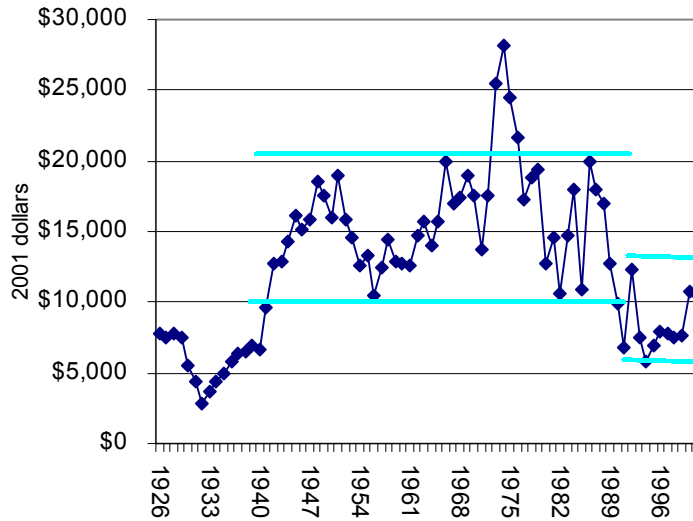
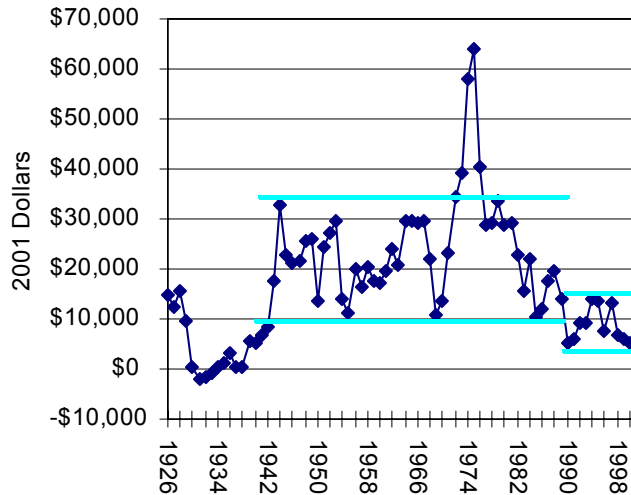


Figure 3: Sask. Per-Farm, Realized Net Farm Income, Adjusted for Inflation, 1926-2001



Sources for both graphs: Agriculture Economic Statistics, Statistics Canada Cat. # 21-603E; Consumer Price Index, Statistics Canada Cat. # 62-010; Historical Overview of Agriculture, Statistics Canada Cat. # 93-358.

Basic economic theory predicts that when corporations and governments use so-called free trade deals to globalize markets, they will push down farmers' market power, prices, and profits. The evidence in Canada over the last twelve years seems to confirm that prediction. The globalization, export-expansion, and free-trade policies pursued by Canadian federal and provincial governments have hurt farmers and enriched agribusinesses. It is probable that these policies have similarly hurt Canadian workers and locally-owned small businesses.

Further, the Canadian economy as a whole has been hurt. Globalization and trade agreements have paved the way for a takeover of most Canadian agri-food sectors by American-based transnational corporations.

U.S.-based companies own 78% of Canadian flour mills. Archer Daniels Midland (ADM) dominates the sector with 52% of Canadian capacity. ADM's share is up markedly from 30% in 1995 and 0% when Canada and the U.S. signed the CUSTA. ADM also owns 45% of United Grain Growers (UGG).

Canada's barley malt plants are now 93% owned by U.S.-based transnationals. One company, ConAgra, has 64% of capacity. Our durum mills are 66% U.S.-owned. Our pasta plants are 67% U.S.-owned and 90% foreign-owned. Two U.S.-based companies, Cargill and IBP, control 74% of our beef packing capacity. In theory, trade agreements could have allowed Canadians to increase processing and exports; in practice, however, such agreements have merely turned the industry over to foreign-based transnationals. In evaluating the benefits of 12 years of "free trade," this consideration must figure highly.

The takeover does not stop with food processing. Soon, Canada's last tractor plant will close, the victim of foreign takeovers and dramatic consolidation in the machinery sector. U.S.-based transnational grain companies are positioning themselves to take over Canada's grain collection and exports. The recently-announced merger of ADM/UGG with Agricore means that in three years, ADM may control Canada's largest grain company. Saskatchewan Wheat Pool will probably be sold to a U.S.-based transnational. The proposed takeover of Canadian National Railway was not significantly opposed by the Canadian government and was stopped only after U.S. government objections. CN merger plans may soon resurface. Canadian Pacific Railway recently broke itself into five separate businesses to facilitate mergers and takeovers. A U.S. railway will likely purchase CP Rail.

In addition to losing control of our food processing sector, that sector now employs fewer people and at lower wages than when Canada began signing trade deals. While using lockouts to force pay cuts of up to 40% on many of its workers, Maple Leaf Foods ran full-page ads in the *Globe and Mail* (November 12, 1997) complaining that packing plant wages in Canada were higher than in the U.S. Maple Leaf called Canadian wages “cripplingly high” and cautioned that “we have to be more competitive to thrive in the North American marketplace.” So-called trade agreements have put Canadian packing plant workers into direct wage competition with workers in U.S. plants who are, in turn, in wage competition with workers in Mexican plants. Wage cuts in Canada are an inescapable outcome.

Fewer farmers, fewer workers

277,300 Canadians worked in the food processing sector in 1988, prior to the first major Canada-U.S. trade agreement. In 1999, 269,400 worked in that sector.

Source: Statistics Canada Labour Force Survey using the North American Industrial Classification System (NAICS).

The industry-advocated experiment with free trade so enthusiastically embraced by Canadian provincial and federal governments has been a disaster. This experiment is costing Canada its farms, rural communities, jobs, and ownership and control of key economic sectors. The solution is to remove agriculture and the agri-food sectors from the WTO, NAFTA, and other international trade and investment agreements.

Politicians need not fear the repercussions of removing food from international trade agreements. Before the WTO agreement of 1994 (and for Canadian farmers, the CUSTA of 1989), food trade was not significantly governed by trade agreements. Are farmers better off now that it is? Are there more farmers in Canada now than in the 1970s or 1980s? Are farmers more prosperous? Is the Canadian economy better off as we lose control of our food processing, grain handling, and strategic transportation sectors to huge foreign-based transnational corporations? Are the food processing workers who have seen layoffs and wage cuts better off? It is very hard to find any benefits to food producers or food processors of adding food to the WTO and other trade agreements. We need not fear taking food out.

The majority of nations are dissatisfied with the results of placing food trade under the jurisdiction of the WTO agreement. These nations and their farmers see the WTO-facilitated flood of cheap export commodities as destabilizing local food production and indigenous farmers. Canada should take a leadership role and work with these nations to remove food from WTO jurisdiction and to craft a new international agreement on food production and trade that focuses on feeding people, supporting farmers and rural communities, and protecting the environment.

The National Farmers Union recommends that Canadian governments:

- 1. Shift their focus from export markets to maximizing food production for the Canadian market;**
- 2. Strengthen and enforce Canadian competition policy to halt the drift toward private monopolies in Canada;**
- 3. Halt and then reverse the takeover of key economic sectors by foreign-based transnational corporations and support the development of Canadian-based companies;**
- 4. Work internationally to remove food from the WTO and other trade agreements; and**
- 5. Work with the majority of nations to forge an alternative food production and distribution agreement that would ensure:**
 - a. that all people have access to sufficient, nutritious, and safe food;*
 - b. that the means of producing that food remains in the hands of peasants, small and medium-sized farmers, and indigenous peoples—both men and women;*
 - c. that food producers receive a fair and adequate return for their work;*
 - d. that wealth created in rural areas fosters the security and prosperity of rural communities;*
 - e. that agricultural policies and practices protect and enhance the natural environment;*
 - f. that every country has the right to adopt all necessary measures to ensure the preceding goals; and*
 - g. that the international food trade is subservient to the preceding goals.*

The Settlement of Rural Canada

For much of its history, Canada had a National Policy—a policy designed to build a nation. Foremost in that National Policy was a plan for settling rural areas and, especially, Western Canada.⁴ Canadian federal and provincial governments urged homesteaders into rural areas and gave cheap land to those who would farm it. Governments encouraged and financed the building of railways and roads. Later, in many rural areas, governments stepped in to ensure that farmers and rural residents would have postal service, telephones, electricity, natural gas service, schools, community centres, hospitals, and a host of services that the markets were unwilling to supply.

All that has changed. Sometime in the 1970s or 80s, Canadian federal and provincial governments reversed a century-old policy of settling Western Canada and other rural areas and began the de-settlement. With the intensification of the farm crisis and the policy decision to allow branchline abandonment, that de-settlement has accelerated to an evacuation.

Agricultural markets controlled by near-monopoly, transnational corporations have decided that they want fewer farmers. Fewer and larger farmers mean higher profits for the companies that sell inputs and for the companies that purchase and process farm commodities. Canadian bureaucrats and politicians have decided to step aside and let the markets and the corporations implement their plans to reduce farm numbers.

It is important to note that the settlement and development of rural Canada was not accomplished by the free and open markets: it was a collective policy decision conceived and executed largely by Canada's citizens and governments. The Canadian nation and its people, through their elected leaders, decided that we should settle the hinterland. CN, CP, Monsanto, Cargill, and Sask. Wheat Pool have now decided—consciously or not—that we should de-settle it.

The decision to reverse the century-long policy of settlement has been perhaps the most significant decision in Canadian history, and yet it was implemented largely without debate or even comment. In its concrete effects, it is the decision to rip up the railways, roll up the roads, erase the farm-sites, knock down the elevators, and let the towns shrink and then disappear from the map. This destruction strongly suggests that Canadian governments had decided—or tacitly accepted the decision of short-sighted, profit-driven corporations—that the settlement of rural Canada was a mistake, that the huge public and

⁴ The NFU acknowledges the expulsion of native peoples and the seizure of their land.

private investment in infrastructure and the economy was a mistake, that the creation of the world's finest food production system was a mistake, and that these mistakes must now be corrected.

The markets and the economic elites that direct them have decided that rural development was a mistake, that our compassionate social safety net system was a mistake, that our equitable, not-for-profit healthcare system was a mistake. The markets and the economic elites are now pushing to correct those "mistakes." With the help of Canada's governments, they are making swift progress. Of course, these programs and policies were not mistakes. They created a strong nation, they gave Canada the number one ranking in U.N. quality of life studies, and they made Canada the envy of people all over the world. Canada was built on far-sighted policies and collective action. It is now being dismantled for short-term profit and private gain. This most fundamental of all policy errors must be reversed.

The National Farmers Union recommends that the Canadian government resume its active and forward-looking role in shaping and developing Canadian society and the economy. The NFU further recommends that the government implement new policies designed to actively build the nation, settle its regions, and foster its rural and regional economies.

Canada's Farm Safety Net System

A major plank of Canadian agriculture policy is a three-pillar safety net structure made up of:

- the Net Income Stabilization Account (NISA);
- Crop Insurance (CI); and
- a disaster relief program—first the Agricultural Income Disaster Assistance (AIDA) program, and then its successor, the Canada Farm Income Program (CFIP).

There is almost universal agreement outside of Ottawa that Canada's safety net programs have failed miserably in their stated tasks—helping farmers hold onto their land or farms, supporting rural communities, and stabilizing rural economies.

AIDA has drawn widespread scorn from farmers. As a program for an extended economic downturn, it fails completely. Because it is based on previous years' income and revenue, AIDA/CFIP coverage decreases as the economic downturn continues and intensifies.

NISA also fails far more farmers than it helps. The top 2% of NISA account holders hold over 20% of NISA funds. These 2,281 farmers control over \$650 million and have average account balances of \$285,719. In contrast, half of NISA participants have account balances below \$8,000. Finally, many families choose to leave their remaining NISA funds untouched. As these families head into the second decade of the farm crisis with little indication of turnaround, as they cling ever more tenuously to a future in farming, their thoughts turn to what will happen after their farms are taken. They wonder how they will relocate their children and how they will support their families until they can find another job. Some farm families—in deep economic crisis and with ebbing hope—choose not to empty their NISA accounts to pay the fuel company. This is not so hard to understand.

CI also fails to adequately support farmers. First, in years with good or average crops, it pays nothing despite large losses due to low prices. In years with a crop failure, it pays a percentage of the average yield—often 70%. But CI's payments for lost bushels are based on current world prices that do not cover farmers' costs of production.

Canada's farm safety net programs fail to sustain its farmers for another reason: they seem not designed to do so. If the programs were designed to maintain the number of farmers—and not production—the programs would be targeted and capped. As noted, the top 2% of NISA participants control 20% of NISA money—hundreds-of-millions of dollars. Of Canada's 274,546 farmers, fewer than 10% received half the AIDA money—a small number received huge payments. These programs pay little or nothing to many farmers, pay the most to the largest farmers, and reward large farmers for expanding and buying up smaller neighbors.

If the objective of Canada's farm safety net programs is to support family farms, then they are a total failure. If the objective is to maintain the diversity and viability of rural communities, then these programs have failed. Moreover, the politicians and bureaucrats in federal and provincial capitals who designed these programs could have easily seen this failure and made adjustments. That they have chosen not to make adjustments is revealing.

On the other hand, if the objective of Canada's safety net programs was to eliminate family farmers and rural communities while supporting increased production and exports and the production of cheap food raw materials, then these programs have been a tremendous success. Production and exports are up, despite the expulsion of farmers. The effect, and seemingly the intent, of Canada's safety net programs has been an "economic cleansing" of rural areas. The programs have pushed many farm families off the land, concentrated land ownership among a small number of large farmers, and facilitated the corporate seizure of control of many farm sectors—hog production, cattle finishing, and others.

The problem with these programs is not just underfunding, but also bad design. Even if AIDA/CFIP, NISA, and CI paid out 25% or 50% more money, because they are untargeted, uncapped, and ill-designed programs, they would result in the same negative outcomes. Much of the evidence for this assertion comes from the U.S., where more lucrative (but similarly untargeted) farm programs are causing a similar expulsion of farmers and a corporate takeover of agriculture.

If our shared priority is the health of rural Canada and the maintenance of family farm numbers, we need another mechanism—because current safety net policy is toxic to those objectives. The European Union has led the way in exploring alternate systems of agricultural support intended to maintain farm numbers and support rural communities. Canada should examine models from the EU and elsewhere.

The National Farmers Union recommends that federal and provincial politicians and bureaucrats clearly state the objectives behind Canada's safety net programs.

The NFU further recommends that those politicians and bureaucrats compare the actual performance and effects of those programs to the stated objectives.

Finally, the NFU recommends that Canada study the efforts of EU nations and others and that Canada design and implement safety net programs that will be effective in supporting farm families, rural communities and culture, rural economic health and diversity, sustainability, and environmental integrity.

Grain Handling and Transportation: Government Deregulation

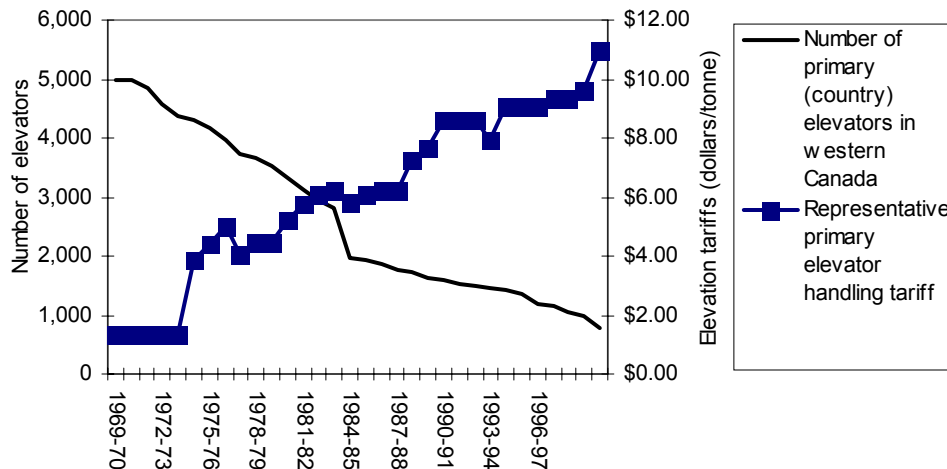
The end of the 20th century was marked by an enthusiastic and uncritical acceptance of the wisdom and power of unfettered capital and financial markets. Bowing to corporate lobbyists and following the lead of the U.S. and its corporate leaders, Canadian governments dismantled many of Canada’s regulatory structures. Politicians and bureaucrats were especially aggressive in deregulating grain handling and transportation.

The promise is simple and seductive: deregulation will lead to increased competition and efficiency and lower costs and prices. The reality—especially in sectors often dominated by two, or three, or five firms—is much more complex. To help sort through the complexity and pierce the rhetoric, this report will examine farmers’ experiences with the deregulation of the Canadian grain handling and transportation systems.

Deregulation: Grain Handling

In 1970, western Canada had 4,984 operating grain elevators.⁵ Today, fewer than 800 remain. Grain companies have closed and destroyed 5/6 of the elevators that existed in 1970. Over the same period, grain production rose one-and-one-half-fold. Today, grain companies collect 150% of the grain they did in 1970 through 1/6 as many elevators. This sweeping restructuring must have yielded dramatic efficiencies. It is therefore educational to examine changes in elevator tariffs during this time of rapidly rising efficiency.⁶

Figure 4: Grain Elevator Numbers and Handling Tariffs, 1970 to Present



Sources: Canadian Grain Commission, *Grain Elevators in Canada, Appendix, “Historical Record”*. Tariff information available upon request from the Canadian Grain Commission.

⁵ Canadian Grain Commission, *Grain Elevators in Canada, Appendix, “Historical Record.”*

⁶ Tariff information available upon request from the Canadian Grain Commission.

Figure 4 shows that farmers pay eight times as much in elevator tariffs today as they did 30 years ago, despite the “consolidation” of over 80% of the elevator network. Grain companies’ tariffs *rose at twice the rate of inflation* despite gains in volumes and “efficiency” that increased the per-elevator throughput nine-fold.

Tariff increases continue. A year ago, many grain companies announced double-digit increases in handling tariffs.⁷ This comes near the end of the most rapid and dramatic consolidation of the elevator network in history—companies cut the network nearly in half in just 6 years.

On top of rapid tariff increases, elevator destruction increases farmers’ trucking costs and costs to build more on-farm storage. Further, reduced elevator capacity increases the risk of transportation system failure⁸—a cost always borne by farmers. Finally, consolidation increases trucking on all highways, leading to increased maintenance costs and increased taxes for *all* citizens, including farmers.

The evidence in the grain handling sector is clear: so-called “efficiencies,” “rationalization,” and “consolidation” do not yield savings for farmers. Farmers stand today at the end of decades of increasing efficiency and dramatic consolidation. And we stand today burdened with escalating costs and mired in a farm income crisis.

Deregulation: Railways and Grain Transportation

Like the grain companies, railways also make the argument that deregulation leads to more competition and efficiency and lower costs. The federal government has joined this chorus and moved aggressively to deregulate railways and grain transportation. While rail deregulation and branchline abandonment may or may not have yielded efficiencies and lower costs for railways, farmers have not seen the savings predicted by governments and industry.

In the May 10, 2000 news release announcing the federal government’s package of transportation reforms, Minister of Agriculture Lyle Vanclief stated:

“This will result in a reduction of an estimated \$178 million a year in grain transportation costs, and will build our continuing efforts to create a more secure future for farmers.”

⁷ Sask. Wheat Pool increased handling and elevation tariffs by over 12% and storage charges by 100% to 200%.

⁸ Per bushel of grain exports, the U.S. has 7 times more commercial storage than Canada. Of the major exporters, Canada has the leanest, most constrained country and terminal elevator system, by a wide margin.

In a June 16, 2000 letter to the NFU, Minister responsible for the Canadian Wheat Board, Ralph Goodale, commented further on the reform package, stating:

“The immediate advantages for farmers are clear: efficiency gains benefiting producers through a revenue cap amounting to \$178 million as of August 1, 2000—an average saving of \$5.92 per tonne in freight costs over what it would have been August 1st,”

The promise was clear: as a result of the package of reforms announced by Ministers Goodale, Vanclief, and Collenette, and implemented as Bill C-34, farmers would see their freight rates decline an average of \$5.92 per tonne below proposed 2000/01 levels..

Farmers have not seen these predicted savings. While no systematic data is available (despite the promise of a system monitoring agency), talking to individual farmers indicates small shipping cost decreases, at best, and increases at many points.

The reason that farmers have not seen the savings predicted by Ministers Vanclief, Goodale, and Collenette is because, to a great extent, the railways are meeting their Revenue Cap commitments by passing savings back to the grain companies in the form of multi-car loading premiums. And it is very likely that grain companies are passing only a small portion of these loading premiums on to farmers.

If grain companies are pocketing a portion of the multi-car loading premiums, as they almost surely are, the saving to farmers will be significantly lower than the \$5.92 per tonne average promised by Ministers Vanclief and Goodale. Not only will grain companies be taking money clearly intended for farmers; and not only will these Ministers have failed to deliver on their commitments; but such action on the part of grain companies will demonstrate a significantly lower level of competition in the system than predicted by deregulation advocates and it will expose the hypocrisy of grain company and railway

Competition and efficiency in the fertilizer industry

Fertilizer production is largely deregulated. Therefore, it can serve as a model of what further grain handling and transportation deregulation may yield.

In a June 27 report to the Ministers of Agriculture, the NFU documented a profound lack of competition among corporations manufacturing nitrogen fertilizer. Nitrogen prices were at record levels this past spring—up 50% to 60% over the previous year. Companies claimed that they were forced to pay more for the natural gas they use to make nitrogen fertilizer.

Looking at company reports to shareholders, however, reveals that these companies had hedged and forward-contracted their gas purchases and many were not paying substantially more. Extremely low competition among companies, however, meant that they did not pass their lower gas prices on to farmers.

Agrium Inc., Canada's largest fertilizer producer, reported that its nitrogen production costs were up 22% in the first quarter of 2001, compared to the same period in 2000. Its nitrogen prices, however, were up 52%.

executives who have so often and so publicly pledged themselves to the project of securing savings for farmers.

Like elevator destruction, transportation deregulation and branchline abandonment have increased farmers' costs, including trucking costs, higher taxes to pay for road damage, and increased on-farm storage costs. There is some evidence that deregulation and branchline abandonment have resulted in lower costs for railways—CP and CN posted record and near-record profits in 2000. However, in a deregulated system dominated by a handful of companies, there is no reason to believe that such cost savings will be passed on to farmers.

The NFU recommends that Canadian federal and provincial governments cease the deregulation of grain handling and transportation that has increased farmers' costs and is destroying both our vital transportation systems: the rail-lines and the roads.

Further, the NFU recommends that the government re-regulate freight rates and elevator handling tariffs and the branchline abandonment process to protect farmers from the increasingly powerful and non-competitive grain and rail companies.

Moving Toward More “Market Oriented” Marketing Structures

For almost a century, Canadian farmers and their governments worked together to build a network of orderly marketing agencies in Canada. Farmer initiative and government legislation helped create the Canadian Wheat Board; the supply management systems for milk, eggs, and poultry; and single-desk marketing boards for fruits, vegetables, and hogs. Today, Canadian federal and provincial governments have reversed their policies of working with farmers and have begun weakening and dismantling farmers’ marketing agencies. That they should do so at exactly the same time that the corporate buyers of farmers’ products have merged to gargantuan stature and near-monopoly power is both inexplicable and extremely damaging to farmers.

Hog marketing and vertical integration

Increasingly, large corporate hog packers are vertically integrating. They are building their own hog barns or controlling hogs through contracting. They are also buying feed companies. This vertical integration makes it very hard for many independent, family farm hog producers to gain access to the market or even to determine the fair market value of their pigs.

Recently, several provinces have dismantled their single-desk hog marketing agencies. This has further diminished farmers’ ability to prosper in a corporate-dominated hog sector. In western Canada, approximately 1/3 to 1/2 of the family farm hog producers have been pushed out of business over the past decade.

The Canadian government signed the NAFTA. Chapter 11 of the NAFTA allows foreign corporations to sue Canadian governments if those governments pass any law (or create any agency) that reduces the corporations profits or revenues. Chapter 11 effectively ends Canada’s ability to expand its orderly marketing agencies—adding oats or canola to the Wheat Board or instituting supply management for hogs, for instance. Chapter 11 serves as a ratchet—we can dismantle our orderly marketing agencies, but we cannot enlarge them or create new ones. In addition to ending Canada’s ability to create orderly marketing agencies, governments have dismantled most of the provincial pork marketing boards and significantly weakened the CWB. These significant policy changes clearly indicate a government policy of hostility to farmers marketing agencies.

The move to weaken farmers’ orderly marketing agencies and the drive toward open markets is an extension of the uncritical acceptance of the power and wisdom of the unfettered market economy. This ideology accepts that markets can best design and construct the economy. People must fit in—“adapt.” The alternative, however—one that has reigned for most of history—is that people, through their governments, will play a significant role in designing the economy. Canada’s farm marketing agencies were an attempt, largely successful, to shape the markets and the economy in a way that balanced the power and interests of buyers and sellers. It was an attempt to ensure that family

farmers received a fair and adequate share of the wealth they help create, even when dealing with buyers and processors a thousand or a million times larger. In dismantling farmers' marketing agencies, government is merely freeing the most powerful interests within the system—corporate packers, grain companies, railways, seed companies, and others—to restructure the system to maximize their profits at the expense of the family farmers. What the government sees as a bold new path forward toward increasing efficiency is, in reality, a retrograde path that has been tried and abandoned numerous times before. Letting the mighty rule is not only not an old idea, it is an idea that democracy was invented to counter.

Not only is the every-farmer-for-himself open-market strategy a step backward, it is a path that only farmers are urged to follow—the world's largest corporations are taking the opposite path. While farmers are urged to “go-it-alone” as independent and competitive lone entrepreneurs, the corporate players in the rest of the agri-food chain are merging until only two or four companies dominate the sector. The mergers of Agriscore and UGG, Novartis and AstraZeneca, and Case/IH and New Holland all demonstrate that big business understands the rules of the game: you have to be big to play in the global market, market power is important, and fewer sellers means fewer competitors which means higher prices and profits. These are the principles upon which Canadian farmers' orderly marketing agencies are based. Evaluated against the actual actions of our most successful global corporations, and not against fanciful rhetoric about free markets, farmers' collective marketing agencies are powerful and shrewd responses to market realities.

The surplus myth

“Low prices are caused by oversupply,” farmers are told. But there is no oversupply. To the contrary, the data may indicate that a shortage looms. The stocks/use ratio is the most common measure of supply and demand. It compares grain on hand at year-end to the amount used that year. This year's world wheat stocks/use ratio will be 22.01%—the lowest level in 29 years. World total grains stocks/use ratio will be 22.12%—the lowest level in 21 years.

Near record low supplies and near record low prices, coming together, are further evidence of market failure.

The National Farmers Union recommends that Canadian governments and bureaucrats resume working with farmers to create and maintain strong orderly marketing agencies that give farmers power in the global market.

Government Promotion of Genetically Modified Crops and Other Technologies

Farmers' attitudes toward genetically modified (GM) crops have changed dramatically. As farmers watched markets for GM crops close and prices fall, the promise of higher profits from this technology evaporated. In addition, farmers have not seen significant cost savings from using GM crops. Finally, GM seed companies such as Monsanto have been quick to launch punitive lawsuits against farmers who intentionally or inadvertently run afoul of company patents. Many farmers' attitudes toward GM crops have turned from hope to hostility.

GM canola and market loss

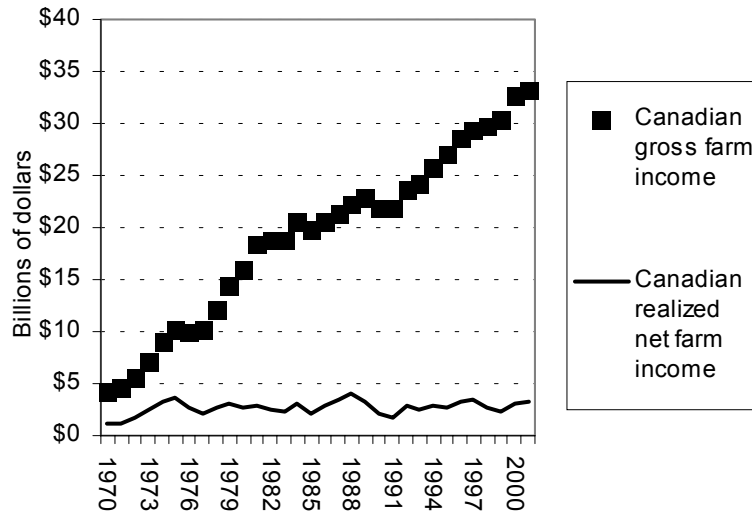
For a period in the early and mid 1990s, before the widespread use of GM canola, Canada sold much of its crop to the EU. In 1993, the EU took nearly 16% of total Canadian exports. In 1994, the EU took nearly 32%. In 1995, it took 25%.

Canadian canola exports to the EU dropped to near zero after 1995. Over the past decade, China has become a major buyer of our canola. The EU, however, was a premium-price market while China is a low-price market.

The failure of GM crops to deliver on promises of increases in profitability repeats a long-established pattern. Fertilizer was supposed to make our farms profitable. So were weed sprays, hybrid seeds, large tractors, airseeders, and computers. Farmers have embraced all these technologies and the result for most is not profit, but a worldwide farm crisis. Now we are told that GM seeds will make our farms profitable. Our experience of the past 25 years shows that farmers should be very skeptical of corporations selling new technologies and promising profits. There are profits, but these profits go to the corporations, not to farmers.

Figure 5, below, shows that since 1975, farmers have more than tripled their gross revenues and yet their net incomes have *declined*. Gross farm income has increased from \$10 billion in 1975 to \$33 billion today. Corporations which sell inputs (or provide services: railways) used their market power to capture 100% of that increase.

Figure 5: Canadian Farmers' Gross Revenue and Realized Net Income: 1970-2001



Source: Statistics Canada, *Agriculture Economic Statistics*, Cat# 21-603E

The reason that input manufacturers have succeeded in extracting 100% of farmers' increased revenues is because these companies price their products according to what the market will bear—if farmers have more money, companies raise the price of their products. In the mid-1990s, crop prices rallied. Wheat prices increased from \$3.82 in 1993/94 to \$4.66 in 1994/95 and \$5.71 in 1995/96.⁹ Prices for corn, soybeans, and other crops increased similarly. Input suppliers moved quickly, however, to extract nearly 100% of farmers' increased returns. As grain prices moved up, fertilizer companies increased prices in step. Between May 1994 and May 1996, wheat prices rose 49%. Over the same period, fertilizer companies increased nitrogen fertilizer prices by 46%. This 46% increase came despite nearly unchanged fertilizer production costs. Companies in other input sectors raised prices in a similar manner.

New technologies *can* make farming more profitable. There is evidence that new technologies had this effect for most of the past century. Plows, tractors, combines, and trucks all increased the profitability of farming and reduced the hardship. These technologies, however, left farmers relatively free and autonomous and, other than some fuel, did not require ever-increasing input purchases. More recent technologies—chemical fertilizers, herbicides, GM seeds—are of a fundamentally different type in that they tie farmers to powerful input manufacturers and require large payments each year. Farmers bought their plows. Fertilizer—or perhaps, more correctly, fertility—is leased to farmers, and farmers are required to make never-ending annual payments.

⁹ Farmers' net in Saskatoon. Source: Saskatchewan Agriculture and Food, *StatFacts*. 10.03.

New agricultural technologies differ in another way. Input suppliers, machinery companies, and other technology sellers were relatively numerous, unorganized, and competitive even up to a generation ago. When grain prices tripled in the mid-1970s, net farm incomes increased dramatically. When grain prices doubled in the mid-1990s, however, net farm incomes barely changed as the few corporations that dominate each input sector moved as a pack to hike prices and snatch away farmers' increased revenues.

The effect that a new technology or farming practice will have on the profitability of family farms depends on the nature of the technology and the competitiveness of the makers of that technology. Technologies in the first two-thirds of the 20th Century left farmers relatively autonomous and able to retain any increased revenues. Competitive markets restrained the ability of input and technology suppliers to profiteer. Today, near monopoly sellers (see sidebar on Monsanto) promote technologies that leave farmers increasingly dependant and which require ever larger annual payments.

Monsanto

Monsanto's dominance of the GM seed market is near absolute. Monsanto holds the patent on one of the two commercial ways to develop transgenic seeds. Monsanto sold the seed for 94% of the crop acres planted to GM crops in 1999.

Source: Rural Advancement Fund International (RAFI).

It is in this context that federal and provincial governments should evaluate the existing and potential benefits of GM crops and other agricultural technologies. The experience of the past 25 years indicates that input makers, and not farmers, will benefit from new agricultural technologies. Given the nature of GM seeds—farmers need to buy new seeds every year at high costs—and the structure of the GM seed sector—one company dominates—it is certain that GM seeds will continue the pattern of delivering economic benefits to corporations, not to farmers.

Canadian governments refuse to look critically at GM seeds and other recent agricultural technologies. They refuse to admit any link between their continued promotion of high-tech farming and either the current farm income crisis or the loss of farmers and rural communities. To the contrary, federal and provincial governments continue to pump hundreds-of-millions of dollars into the promotion and development of GM crops and foods. By doing so, they are funding the expansion of a system that serves to extract wealth from family farms and rural communities and funnel that wealth to a handful of powerful, foreign-based input manufacturing transnationals.

Organic production promises to free many farmers from the grips of ever-more-voracious input and technology suppliers. Organic production also promises higher returns for farmers, an increased number of farmers on the land, more nutritious food, and

environmental benefits.

Organic agriculture is delivering, or has the clear potential to deliver, the benefits that GM seeds and other technologies have promised but failed to deliver. Despite its relative promise, however, organic agriculture is largely overlooked by Canadian governments and receives only a tiny fraction of the funding that goes to GM seed and similar research.

The NFU recommends that Canadian governments provide funding to organic research and promotion equal to that which it provides to the GM seed sector.

The effects of GM technology on organic agriculture

GM wheat—and the GM barley, oats, peas, and other crops sure to follow—threatens to destroy organic agriculture in Canada. It is now nearly impossible for most organic farmers to grow organic canola. The proliferation of GM canola, uncertainty over seed supply purity, and the risk of pollen contamination mean that organic farmers have little certainty that their canola will be free of GM seeds. The introduction of GM wheat and other GM crops will mean that organic farmers will be left with fewer and fewer crops to grow.

GM technology is unique: its very existence threatens to deprive farmers miles away of their ability to farm in the way they choose and to serve high-value markets. If some farmers begin growing a given GM crop, all farmers in the region are restricted to growing the GM crop, a GM-contaminated crop, or not growing the crop at all.

Conclusion

The current farm income crisis is largely the result of dramatically increased agribusiness power, lack of competition, and a subsequent market failure characterized by dramatically unequal allocations of revenues and profits within the agri-food chain. But it is also the result of numerous policy errors on the part of Canadian federal and provincial governments and their bureaucrats and the reversal of long-standing Canadian policies designed to build and safeguard Canadian agriculture and the Canadian nation.

We are in at least the twelfth year of this farm income crisis. The current federal government and many of its bureaucrats have presided over Canadian agriculture for most of that period. It is extremely disheartening for farmers that the Prime Minister, MPs, and Senators are still holding meetings, still pretending that they cannot discern the causes of the farm income crisis or its solutions. The causes have been clearly articulated from many observers: neo-liberal policies, free-trade, globalization, and deregulation have released increasingly powerful and decreasingly competitive agribusiness corporations to ravage Canadian farms and communities for short-term, short-sighted gain. At the urging of the corporate elites, the Canadian government has remade agricultural policy to facilitate this corporate extraction of wealth and destruction of public infrastructure.

The solutions are equally clear: return to an agricultural policy and other social and economic policies that serve the interests of Canadian families, farms, and communities and return corporations to their proper, supporting, role. Renew the governments' commitment to working with the people to shape an economy which fosters family farms and local businesses. Halt the slide to toward monopoly markets controlled by foreign transnationals. In short, govern in the interests of the people and of the nation.

The farm income crisis is nothing more than one symptom of a more general, national failure of Canada's governments to pursue policies that benefit and strengthen Canada, its regions, and its economic sectors. The collapse of the east-coast fishery, our faltering healthcare system, and the foreign takeover of the Canadian economy are further symptoms of this general failure. The solution to the farm crisis—courageous, citizen-focused government action—is also the solution to many of the problems that plague this country.

The National Farmers Union recommends that Canadian governments reclaim their rightful roles in shaping Canadian policy and markets in the interests of farmers, workers, and all citizens.