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1973 all over again?

World grain supplies for the coming crop year are projected to fall to a 33-year low—all but equalling the low levels of 1973. In the early '70s, a combination of falling supplies, unusual Soviet purchases, and political machinations caused grain prices to double and triple and set the stage for a decade of prosperity on many farms. In significant ways, the current grain supply drawdown is even more dramatic than the one in '73.

But 2006 is not 1973. Today, farmers growing grains and oilseeds are caught in an epic struggle, in an intensifying tension between the forces of supply and demand (which would normally send prices up, as they did in '73) and the market power of a web of vertically- and horizontally-linked agribusiness transnationals who've restructured the food system to capture the wealth that, in previous decades, would have landed at the farm-gate. However, if current trends hold and grain supplies continue to erode, these corporations will not be able to maintain their grip, and prices will spike. Though pressure for such an upturn is building, when or if such a spike will occur is uncertain. No farmer would naively discount the power of the dominant agri-food transnationals and their oft-captive governments, but there is a trend-line that this article will examine on the following pages that has a power and logic of its own.

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CAIS Program feeds the full

The following article gives a breakdown of Canadian Agricultural Income Assistance (CAIS) Program payouts in Saskatchewan. The NFU has requested data for other provinces and will share that data in future articles of the Union Farmer.

Half the Saskatchewan farmers who collected Canadian Agricultural Income Assistance (CAIS) Program cheques in 2004 received less than $10,000. These 10,042 farmers received an average of $4,098.80 each. This bottom 50% of CAIS Program recipients shared just 11% of the total CAIS Program payout money.

And while few got real money, a few got *real* money. In 2004, 8% of recipients, 1,556 farmers and large industrial operations, received 43% of the CAIS Program money, an average of $102,426 each. Further, 1% of recipients, 190 farmers and large industrial operations, received 10% of the CAIS Program payout money, pocketing an average of $278,180 each. Finally, the highest-paid CAIS Program recipients, 4 huge operations, shared $5.6 million, or an average of $1.4 million each.

Another provocative pattern emerges when we look at the Reference Margins of the Program recipients. For instance, most of the payouts listed fell in the $10,000 to $25,000 range. Those farmers received an average of $16,092 each and those farms had average Reference Margins of $62,050 each. That means that these predominantly small- and mid-sized farms qualified for CAIS Program payouts equal to approximately 25% of their Reference Margins (see sidebar). But in the higher payout categories, those who qualified for CAIS Program payments of $100,000 or

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The CAIS Program's "Reference Margin" is calculated using an Olympic Average (taking the last five years of the producer's margin, omitting the highest and lowest margins within that time period, and averaging the remaining three years). The reference margin is compared to the program year margin to calculate the producer's CAIS benefit.

(*CAIS Program*, *from page 1*)

more, those operations received payments equaling more than half their Reference Margins. And in a twist that the NFU is looking into, for those 4 operations receiving more than $1 million each, the total Program payout ($5.6 million) was 247% the total Reference Margins for those 4 operations ($2.3 million). The big clearly lost the most and collected the most.

In meetings with federal and provincial governments, the NFU has repeatedly put forward the need for appropriate caps on CAIS payouts so that Program funds can be directed to the family farms most in need. Such caps are needed so that the Program can accomplish the public policy purpose that the taxpayers who fund it intend: to stabilize and help the maximum possible number of family farmers with the money available. Canadian taxpayers will soon lose their appetite for funding farm support programs if they see million dollar payments. — nfu —

NFU makes presentation on farm income crisis to Senate Ag. Committee

On May 30, a delegation of NFU members and officials appeared before the Senate Standing Committee on Agriculture and Forestry in Ottawa. Representing the NFU were President Stewart Wells, Women's President Colleen Ross, former National Board member Barry Robinson, and Carleton County Ontario Local President Jack Hoogenboom.

"Three facts are clear," Wells told the Senators. "First, world food supplies are currently very low. In fact, by the end of the year, they may be at record lows. Second, realized net farm incomes and farm-gate commodity prices are at record lows. Third, the profits of large agribusiness companies are at record highs. It's time to connect the dots."

The NFU delegation pointed out that the real problem is Canadian agriculture was the market power of the dominant transnationals. The NFU told the Senators that strengthening orderly marketing and supply-management systems are the key to restoring prosperity to Canada's farming community.

The NFU officials also told the Committee that the regulatory framework in agriculture has shifted from protecting primary producers' interests to protecting corporations. "The government has granted multinational companies favourable regulatory changes such as increased patent protections, which are tremendous wealth-extraction tools," he said. "At the same time, these same companies are arguing that farmers' marketing boards have to be destroyed." — nfu —

April 17: International Day of Farmers' Struggle

NFU Women's President Colleen Ross did extensive work on April 17 and in the weeks leading up to that date to call attention to the struggle of farmers around the world for justice and fair returns.

The Via Campesina instituted the "International Day of Farmers' Struggle" to commemorate the murder of 19 farmworkers in Brazil on April 17, 1996. The murders were politically-motivated because of the farmworkers' involvement in the Movimento dos Trabalhadores Rurais Sem Tierra (MST – Movement of Landless Rural Workers).

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On the morning of May 12, the United States Department of Agriculture (USDA) released its first supply projection for the coming 2006/2007 crop year; that projection put world total grains stocks/use ratios at 15.71%—within a whisker of the 15.36% recorded in 1972/73, just before world prices rose sharply and Canadian farm-gate corn prices doubled and wheat prices tripled (see sidebar for an explanation of these ratios).

Note: To convert from stocks/use ratio percentages to "days of supply", multiply the percentage by 365. Thus, the 15.71% stocks/use ratio projected for 2006/07 is equivalent to having a 57-day supply of grain in the world.

The graph below shows world grain supplies and the number of days of supply for each crop-year since 1960. If USDA projections for 2006/07 are even close to correct, then the coming year will be sixth out of seven when the world consumed more grain than it produced. And a 57-day supply will mean that in seven years we've eaten through *half* the 116-day supply that existed at the end of 1999/00. If nothing changes and the trend-line holds, world grain supplies will intersect zero in seven years. While pundits and pit traders may debate whether 57 days of grain represents a tight supply, there can be little dispute that the *trend-line* indicates that demand is running well ahead of supply and that a shortage is imminent unless something changes dramatically.

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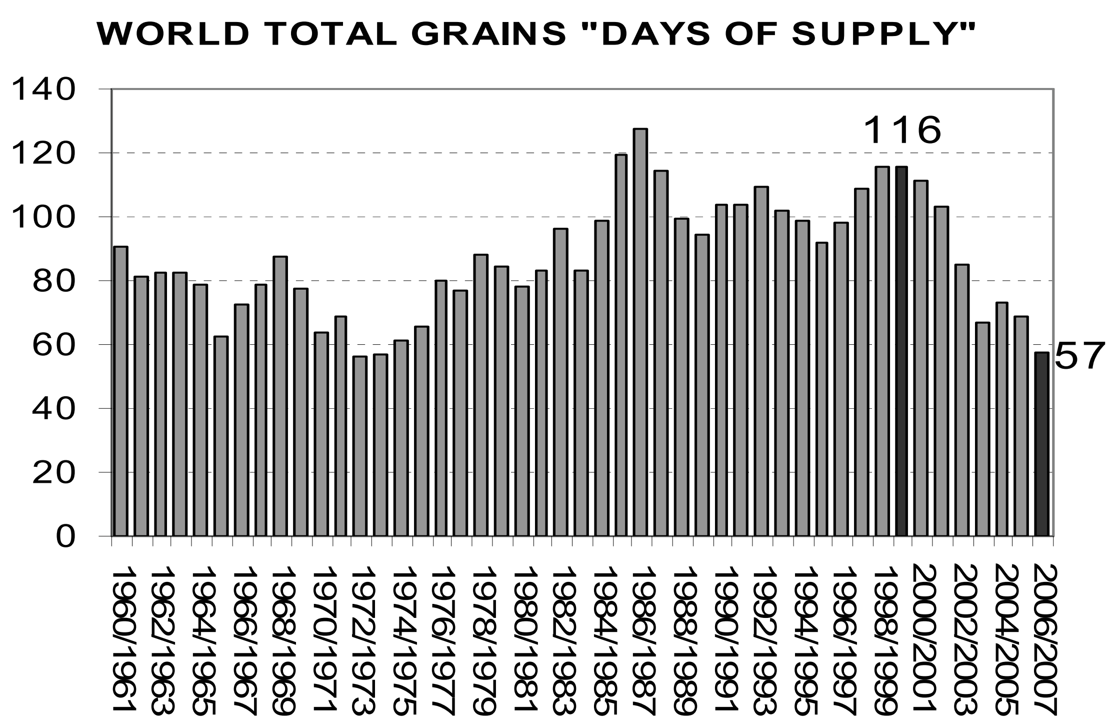
Stocks/use ratios?

Stocks/use ratios are a commonly used measure of supply. The ratios are calculated by taking the volumes left in storage at year-end ("stocks") and dividing them by the total amount used during that year ("use").

Because these ratios take into account how much is used, they take into account increases in consumption by a growing population, or shifts in diets, from grains to meats for instance, and, thus, increased use for animal feeding.

Note that while "supplies" (measured as stocks/use ratios) have returned to 1973 levels, this is not the same as saying that *stocks* have done the same, because stocks/use ratios measure supplies by looking at stocks *in relation to the total used*. 1972/73 world grains ending stocks were 180 million tonnes and total use for that year was 1,173 million tonnes, for a stocks/use ratio of 15.36%, or a 57-day supply. 2006/07 ending stocks are projected at 320 million metric tonnes and total use at 2,042 million tonnes for a stocks/use ratio of 15.71%, or a 57-day supply.

Also note that stocks and use measures will miss some grain: a portion of the grain that is outside the market economy—produced and consumed at the household, village, or regional level.



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The 57-day supply projected for the coming crop year is down sharply from the 69-day supply expected for the current year. It may be the case that, outside of wartime, the world has rarely ever had less than a 57-day supply of grain on hand. And given that supplies of many other food sources—fish, wild game, gatherable fruits and nuts—are probably also at record-low levels, low world grain supplies take on added significance.

One final note on 1973, grain supplies, and prices: The preceding graph shows us that in the lead-up to the tight supplies and high prices of the mid-'70s, there was no clear indication that consumption was consistently running ahead of production. Unlike the current period in which demand has exceeded supply in six of seven years, the same was not true for the 1970s; in the seven years immediately preceding 1973, demand exceeded supply in only three years. The current drawdown of grain supplies appears unprecedented in the consistency with which consumption has exceeded production.

So what about prices? Despite valid scepticism about the function of supply and demand in setting prices in hyper-distorted markets, it's hard to believe that prices can remain near record-lows if supplies plumb sub-50-day or sub-40-day levels. While prices may or may not rise, it remains instructive to compare the situation today with the lead-up to the 1973 spike. The graph below charts inflation-adjusted farm-gate wheat prices over the past 85 years. (All historic wheat and corn prices that follow are adjusted for inflation; expressed in 2006-dollar equivalents.) Note the following:

- Current wheat prices are the lowest since 1931;
- In the late-'60s and early-'70s, just before they spiked, wheat prices were at their lowest levels since 1931;
- The western Canadian farm-gate wheat price tripled between 1971 and 1973;
- In order for current wheat prices to touch 1973 levels, prices would have to rise *six-fold*;
- While a six-fold price increase to over $21 per bushel may be unlikely, if today's wheat prices were merely to rise to touch the *lowest* price recorded between 1933 and 1985, the farm-gate price would have to more than double, to $7.10 per bushel;
- If wheat prices were to rise to the *average* of that 50-year period, they'd be $11.33;
- If we look only at the data before 1985 (year one of the current farm crisis), there is no clear trend-line; the downward trend in grain prices exists only because the most-recent 20 years of below-average grain prices tilts the long-term trend-line down.

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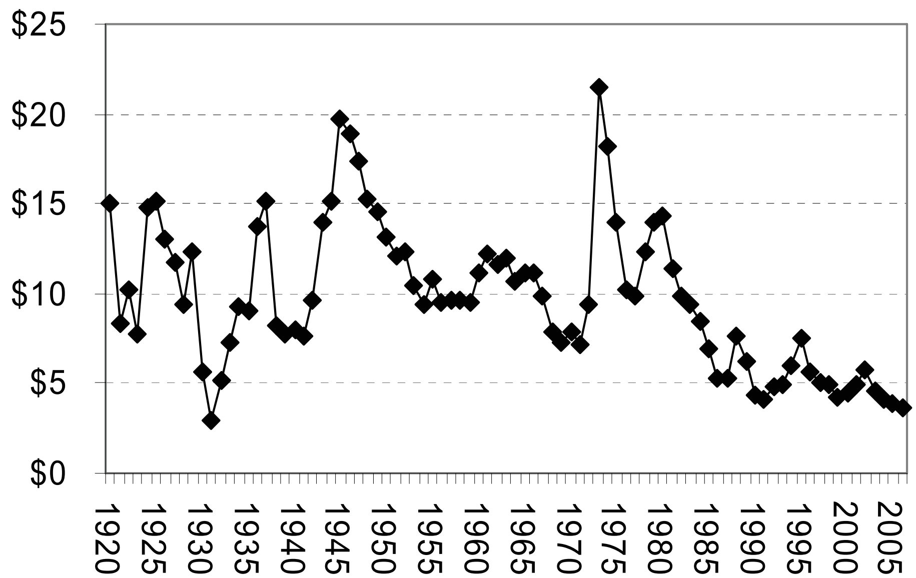
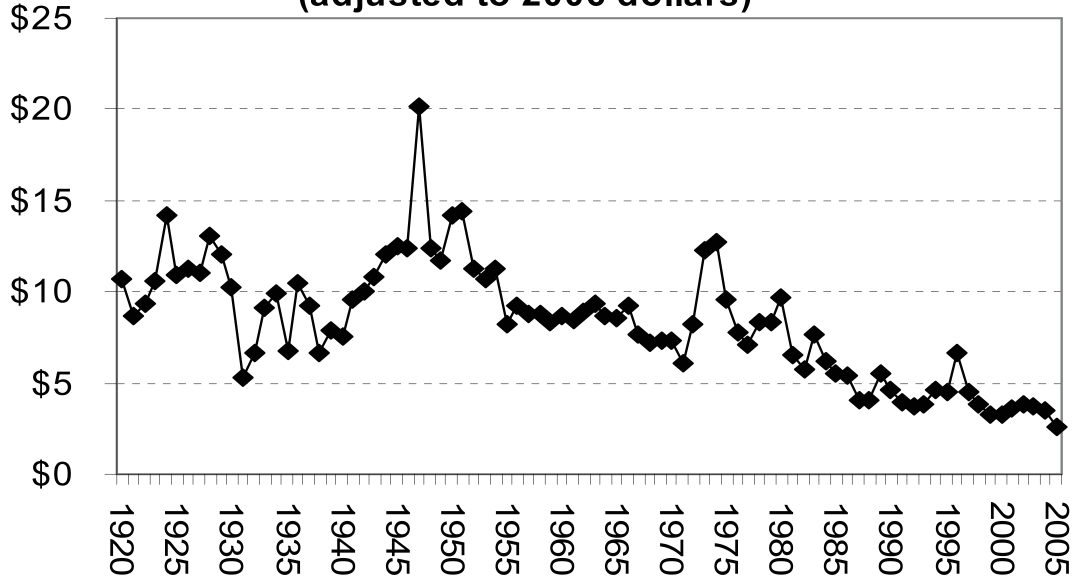
WHEAT PRICE, SASKATOON NET: 1920-2006
(adjusted to 2006 dollars)



Many of the preceding points seem to beg credibility: $7 or $11 wheat? But if such numbers seem inconceivable, our incredulity is merely a reflection of just how astonishingly low grain prices have been for the past 20 years when compared to the rest of the century. Before 1985, the farm-gate price of wheat fell below $7.00 only three times—all during the Great Depression. Since 1985, the price has been above that level only once. There is absolutely no reason why the world cannot sustain grain prices at double or triple their current levels; such levels are *normal*. In markets that actually functioned and were not twisted by Cargill, ADM, et al, prices would be at those levels. The conflict today is between the power of supply and demand and the power of the dominant corporations to perpetuate a system designed to seize wealth from farmers and transfer that wealth to the major shareholders of the dominant food-system transnationals. These corporations are not part of a free-market system: these corporations work to subvert such systems.

The situation for corn prices is similar to that of wheat. The graph below charts inflation-adjusted corn prices over the past 85 years. While many of the observations made with regard to Saskatoon wheat hold for Chatham corn, some do not. For corn, 2005 marked the lowest price *ever*—approximately half the level of the Great Depression. Farm-gate corn prices doubled in the mid-1970s immediately after touching a post-Depression low. Like wheat, corn prices display a near-flat trend-line for the 60-year period from 1920 to 1980. And, for corn prices today to rise to the lowest level of the 1932 to 1980 period, prices would have to double.

CORN PRICES, CHATHAM NET: 1920-2005
(adjusted to 2006 dollars)



Some prices are moving up, if slowly. Futures prices for corn and wheat are up 10% to 20% compared to a year ago. Despite such increases, however, prices remain low by historic standards. The chart on the right shows Chicago Board of Trade July 2007 delivery corn futures prices. While futures prices are up, cash/spot prices in Ontario have yet to rise significantly.

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When we are considering potential grain price increases, however, we also have to keep in mind that higher grain prices alone will not end the farm crisis, and that higher prices will bring problems of their own. If livestock prices do not swiftly adjust to reflect higher feed costs, then grain producers' gains may quickly turn into livestock producers' losses. Packers and large feedlots will make cow-calf farmers the shock absorbers in any feed-grain price rally. (Disturbingly, profitability among family farm cattle producers is extremely low today despite record-low feed-grain prices; there is no capacity among cow-calf producers and owners of small feedlots to absorb grain price increases.)

Hog producers, currently making just $2 per animal by some estimates, will see that tissue-thin margin disappear and large losses mount if grain prices rise.

Grain producers will face challenges as well; few things are as certain as the fact that higher grain prices will lead to much higher input costs. And without aggressive measures to ensure intergenerational transfer, a brief price spike may trigger a spasm of farm consolidation and farm loss. With markets massively distorted by corporate power, and with Canadian agricultural policy in denial of those market realities, grain price increases alone can never end the farm crisis.

Further, when we look at the international situation, we quickly see that the dominant agribusiness transnationals will take advantage of any talk of food shortages to promote the use of fertilizer and patented seeds as a way to supposedly boost production. While the false perception of surplus has been used against farmers, so too will any dawning awareness of shortage. Monsanto and its like have powerful incentives to use political uncertainty about food supplies to proliferate their high-tech, high-input, high-cost, high-dependency model of food production, to the detriment of farmers in every nation. Whereas small farmers in Asia, Africa, South America, Mexico and elsewhere are now battered by low-priced "surplus" grain, in a food-short world there will be pressure to subject these farmers to rapid "modernization" and industrialization, and attendant expulsion. Farmers, now forced off their land because the world supposedly has too much grain, may soon be forced off because the world needs more.

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The oversupply myth and the ethanol question

While nearly every other Canadian farm organization has repeated the corporate line of "oversupply" and "surplus" to explain record-low grain prices, the NFU has been nearly alone in pointing out that the world is using more grain than it produces.

The NFU has also been nearly alone in countering the uncritical enthusiasm of the burn-the-surplus ethanol promoters. The NFU has taken a sometimes-unpopular stance against grain-based ethanol—asking questions about the ethics of burning food-based fuels in a world plagued by hunger, and about the wisdom of investing billions in grain-based ethanol if its feedstock, our food supply, is undergoing historically-unprecedented drawdown. Massive investment in ethanol may be a huge public policy blunder.

It is unlikely, however, that ethanol advocates will carefully reflect on what declining food supplies might mean. They probably won't miss a beat—shifting effortlessly from talk of surplus to talk of shortage, and then (in a triumph of self-promotion over self-analysis) taking credit for creating that shortage and any attendant price increases. However, just as claims of oversupply do not match the data, neither do claims that ethanol production is a significant driver in shifting supply and demand relationships. Corn use in ethanol production accounts for only a small fraction of the global grain supply drawdown over the past seven years.

For reasons ethical, environmental, and economic, Canadian federal and provincial governments should cool their overheated and uncritical support of ethanol and take a long careful look at the plan to burn food in an attempt to proliferate the SUV culture.

Instead of forcing small farmers around the world into the global, high-tech food system, governments need to acknowledge what has just happened over the past seven years: transnational giants seem to have brought us close to food shortage, all the while chanting reassuring mantras of "surplus", suppressing prices, expelling farmers, and damaging and destroying food production systems around the world. It would be ludicrous to respond to that reckless mismanagement by turning the planet's remaining food supply systems over to these corporations. That would be akin to turning the world's energy systems over to Enron.

If we are in the midst of a shift from a time of relative food abundance to one of increasing food-supply challenges, the best solution is to foster local, sustainable production and consumption because it is this model that has the best chance of actually feeding local people. It is also the model that can best serve as an alternative and counterweight to the agri-food transnationals who have so ill-managed our critical food supplies.

If we may be heading toward a time of increasing uncertainty over fossil fuel supplies, it would be crazy to choose this moment to shift the world's sustainable food production systems to industrial systems dependant on fossil-fuel-derived fertilizers and chemicals. Further, if fossil-fuel supply challenges may soon force us to begin re-localizing our economies, we should begin with food supplies.

Farmers in Canada and around the world need at least two things: higher grain prices, and agriculture policies that recognize and restrain the power of transnational agribusiness. Without the latter, the former will provide only fleeting relief from the farm income crisis.

The NFU will continue to monitor fundamental measures of world grain supply and demand in an effort to help farmers and policymakers understand the truth about our markets. — nfu —

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NFU endorses call for Auditor-General's investigation

In a statement released at a press conference in Ottawa May 15, NFU Vice-President Terry Boehm said farmers and Canadian taxpayers have been overcharged hundreds of millions of dollars by the two major railways. He endorsed a call by MPs Alex Atamenenko and Peter Julian that an investigation be conducted by the Auditor General into why the railways were permitted to gouge farmers on transportation costs and grain car maintenance.

The overcharges were brought to light as a direct result of the efforts of the Farmer Rail Car Coalition to determine actual maintenance costs for rail hopper cars. In its business plan, the FRCC concluded that realistic maintenance costs would amount to approximately $1500 per car. Last year, the Canadian Transportation Agency (CTA) undertook a study which concluded car maintenance costs were $1686 per car—a figure very close to the FRCC's calculation. However, for the past decade, the railways have been charging the government $4329 annually per hopper car for maintenance of questionable quality. The CTA study concluded that the national railways received more than $48.6 million in excess payments—in 2004 alone—for maintaining the government's 12,000 car fleet of grain hopper cars. — nfu —

NFU leaders address farmers' Solidarity rally in Ottawa

NFU President Stewart Wells and Women's President Colleen Ross took to the podium and addressed an estimated 10,000 farmers who gathered to protest on April 5 in Ottawa. Wells told that crowd that "It's important to remember that during the election campaign, the Conservatives promised a support program that addressed farmers' cost of production. Over the next couple of months we're going to hear a lot about 'accountability' from this government. Well, accountability starts here and starts today."

Ross told the crowd at the rally that while farmers are suffering record losses in net farm income, corporate agribusiness is making record profits. "There is money being made in agriculture, but the market isn't paying farmers for what they do," she stated. A study on levels of corporate profits is available from the NFU website at www.nfu.ca

Following the rally, Wells and Ross remained in Ottawa to meet with Ag Critics and ministerial officials from all parties. — nfu —

Federal-provincial meetings to draft APF successor: NFU attends

The federal, provincial, and territorial Ministers of Agriculture have convened a series of meetings that include representatives of farm organizations. The meetings are intended to provide some input into the creation of a successor to the Agriculture Policy Framework (APF). The first meeting will take place June 5 in Toronto.

The much-maligned APF is set to expire in 2008. The government has decided that it will hold consultations over the coming year to help it draft a replacement. One of the conditions of attending these consultations is that the representatives of farm and other organizations have to sign a confidentiality agreement and agree not to disclose details of the discussions or any draft documents. The NFU will work inside and outside the meetings to improve both the policy content and process. — nfu —

NFU urges Ontario rural municipalities to offer tax relief

Ontario rural municipalities should implement measures to defer penalties and interest on farm property tax for up to three years as a way of helping farmers cope with cash flow difficulties this spring, says the National Farmers Union (NFU).

In a letter to the Association of Municipalities in Ontario, NFU Ontario Coordinator Don Mills said farmers are facing a serious cash flow crunch, and tax deferral could provide some breathing room until short and long-term solutions to the farm income crisis are implemented.

Mills said a recent decision by the City of Ottawa (whose boundaries include farmland) to implement a six-month farm property tax deferral should prompt other municipalities to extend some tax relief to hard-hit farm families. The NFU adopted a resolution at its annual regional meeting last month advocating a 3-year tax deferral time frame. — nfu —