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national farmers union
In Union Is Strength

The Farm Crisis and the Cattle Sector: Toward a New Analysis and New Solutions

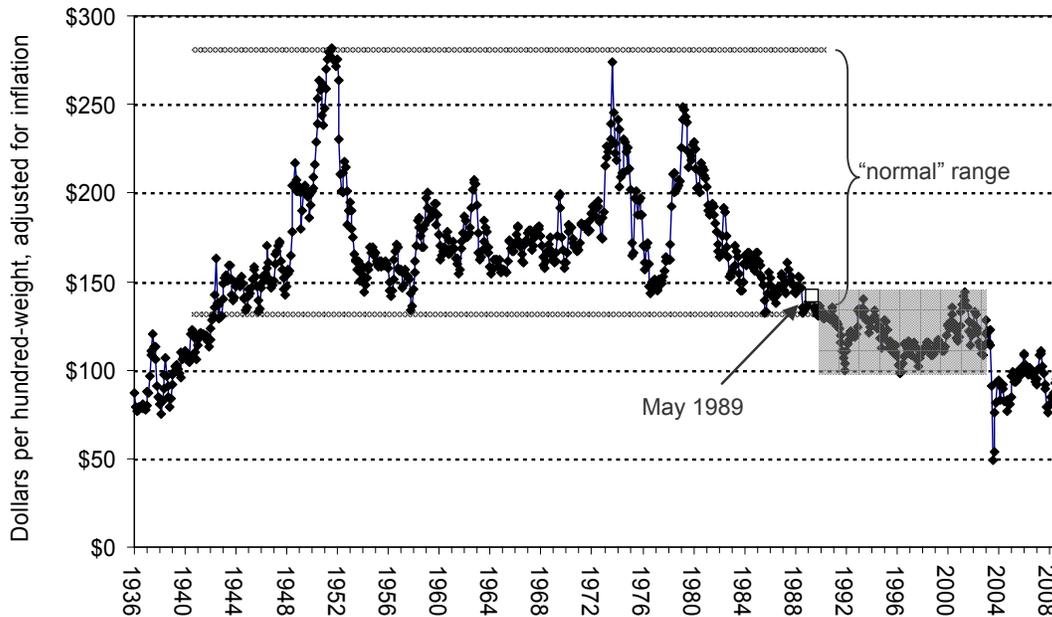
A Report by the National Farmers Union
(Canada)

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.

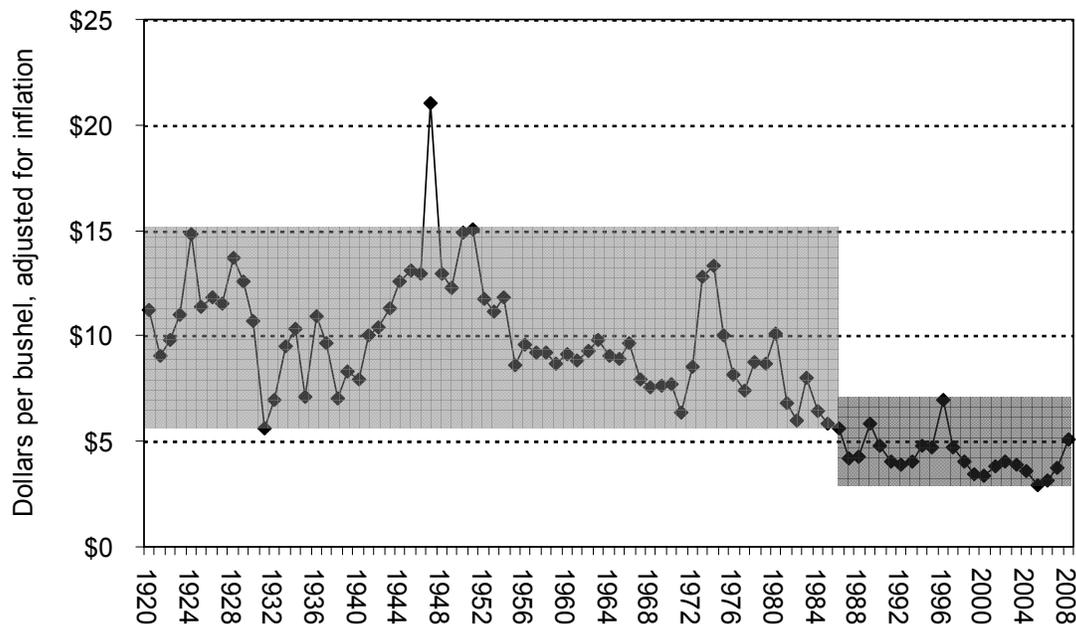
Superscript numbers (small numbers raised above the line of the text) in this Executive Summary refer to endnotes located on the final pages of the Main Report; please download that Report in order to access a wealth of endnote references.

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

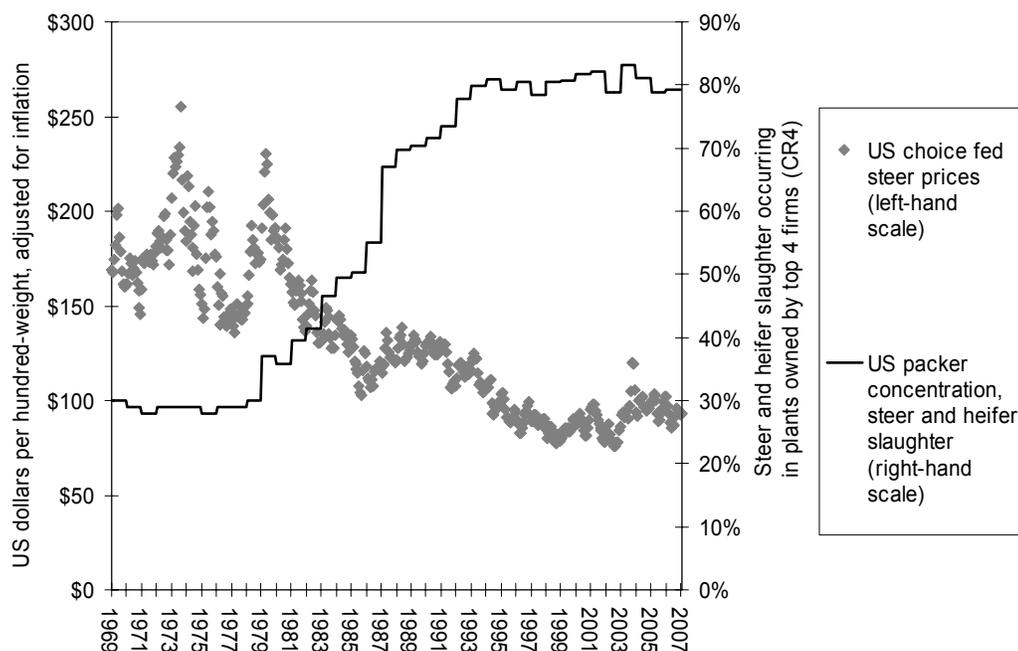
Both the number of plants and (thus) the potential for energetic bidding have fallen sharply since the late 1970s. But a relatively large number of plants is not a relic of that era; as recently as 1987, five companies (Canada Packers, Dvorkin, Gainers, Burns, and Lakeside Packers) operated six mid-sized 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 1990¹¹ to 89% in 2007.¹²

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

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.

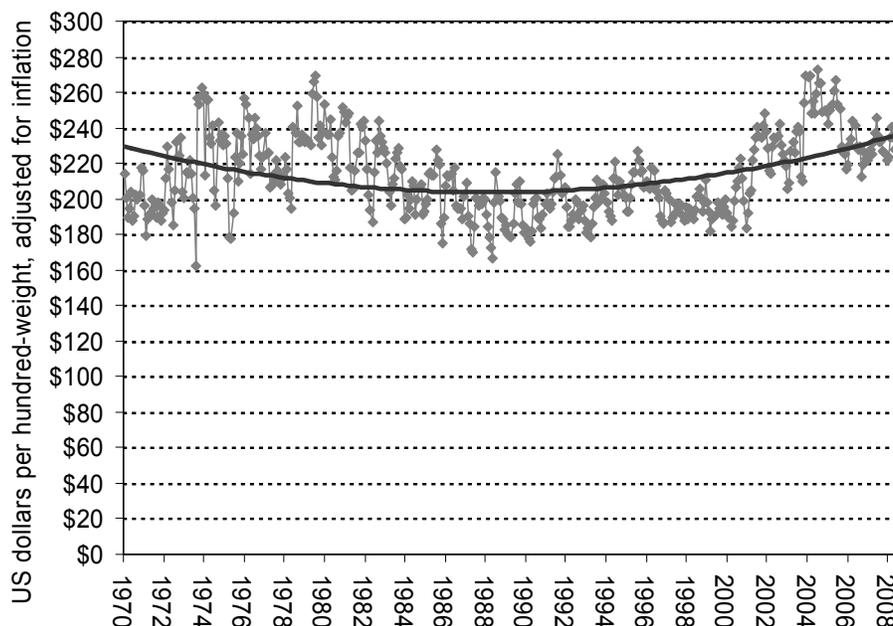
If the government approves the sale, the situation in Canada will deteriorate still further. Corporate concentration will rise, as will vertical integration. Captive supply levels will probably rise as well.

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.

* 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**



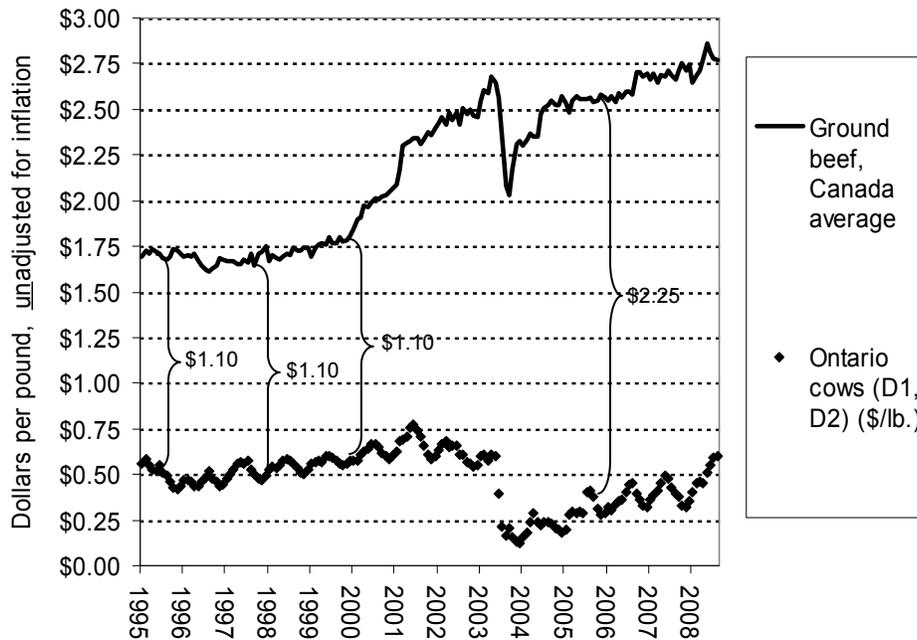
Source: United States Department of Agriculture, Economic Research Service, Data Sets, Meat Price Spreads, www.ers.usda.gov/Data/meatpricespreads/data/historicalpricespreads.xls

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:

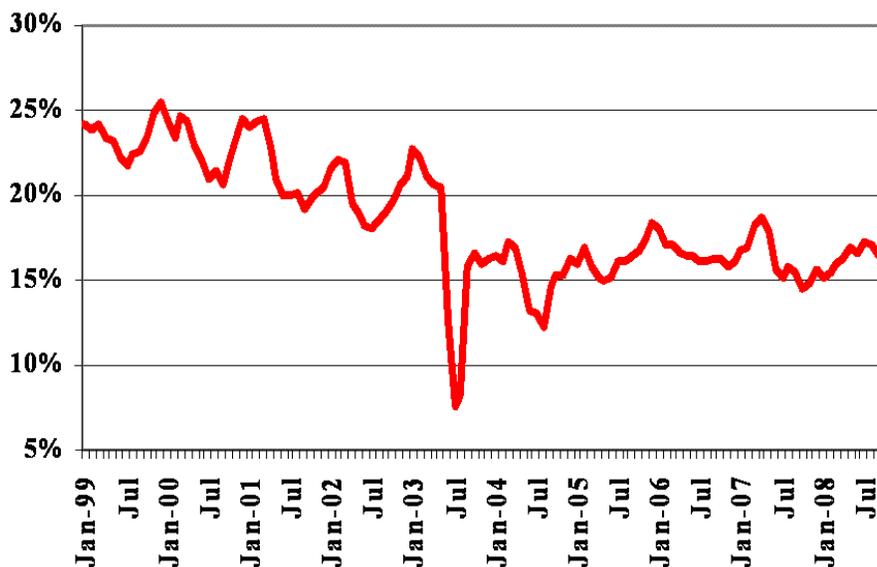
The downstream retail food sector in Canada is characterized by high levels of corporate concentration; five major retailers (Loblaws, Sobeys, Safeway, Metro, and A&P) control approximately 67% of the market. In most regions in Canada,

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

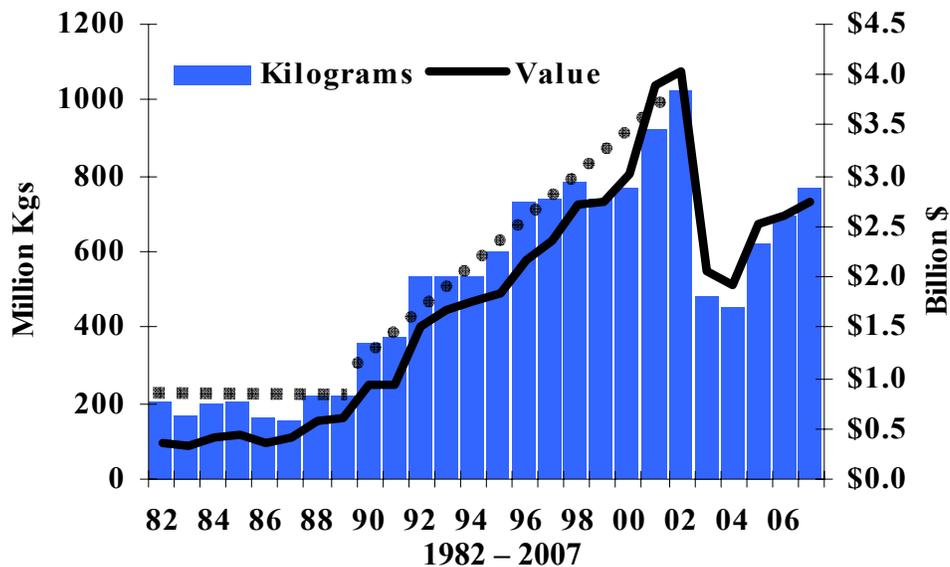
1989 also marked the takeoff point for continental integration—the enfolding of the Canadian cattle and beef sectors into the US system. The mechanisms of continental integration are these:

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 overdependence: 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.

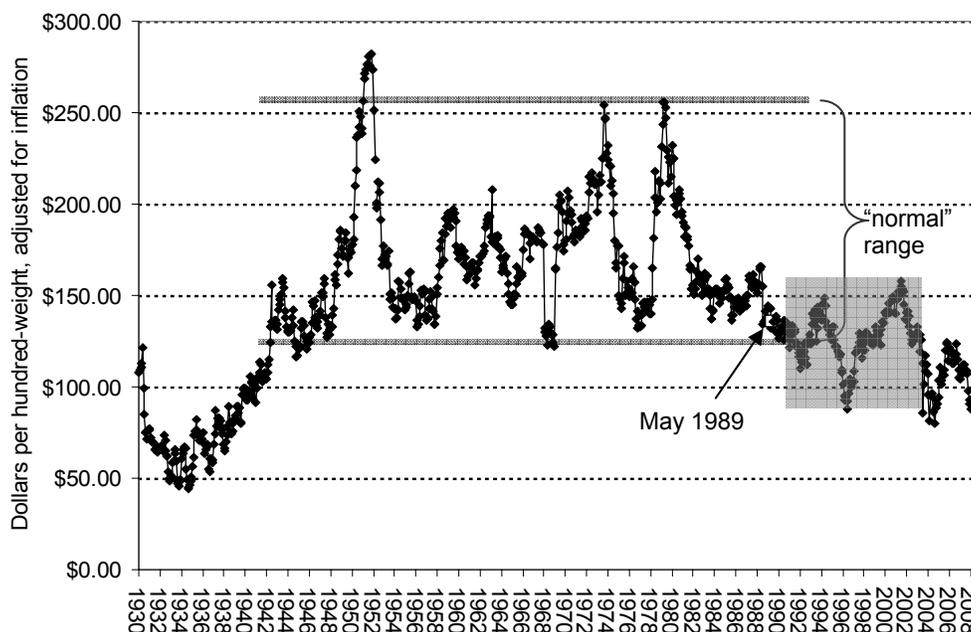
Canadian prices are set in the US. Canadian policies and developments directly affect both Canadian *and* US prices. An example of this is our decision to ramp up production and exports in the 1990s. Had Canada decreased production, as did US producers, North American cattle prices would be higher today. 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.)

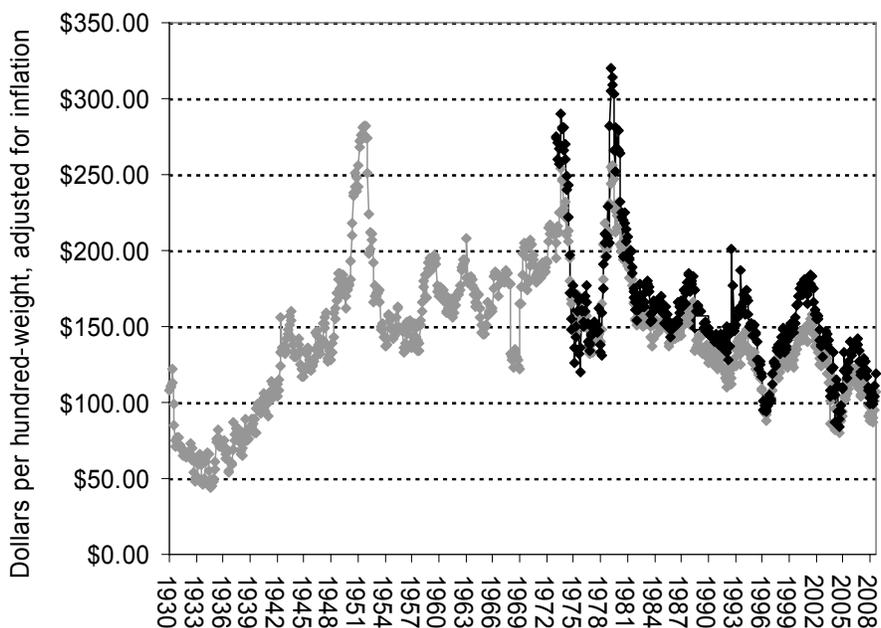
Briefly, we again see several periods: Depression-era prices on the left; then, in the middle, the same nearly fifty-year “normal” phase wherein prices oscillate up and down in the channel shown by the upper and lower grey lines, but prices never fall below \$120 per hundred-weight. Next, we see the 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 contracts 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 *deconcentration* 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 facilities (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 BSE³⁴ promises to detect the presence of the disease with 100% accuracy³⁵ 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. Catharines, 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 affect 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.

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.

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

10.0 Main Report: Introduction

Independent family-farm livestock producers are in crisis. They're in crisis in Alberta, Ontario, the Maritimes, Manitoba; in every province. They're in crisis whether they produce cattle or hogs, bison or sheep, goats or elk. Prices are low and costs are high. Income is not covering expenses. Farmers are losing money. And they are losing their farms.

On one level, this is a report about Canada's cattle sector. This report looks at the price and profitability crisis. It offers solutions—some incremental, some radical. It examines who owns and controls the various links in our beef production chain. It looks at power and at profit, and at the connection between the two. It looks at what farmers have done, what governments have done, and what the dominant transnationals who control meat processing and retailing have done.

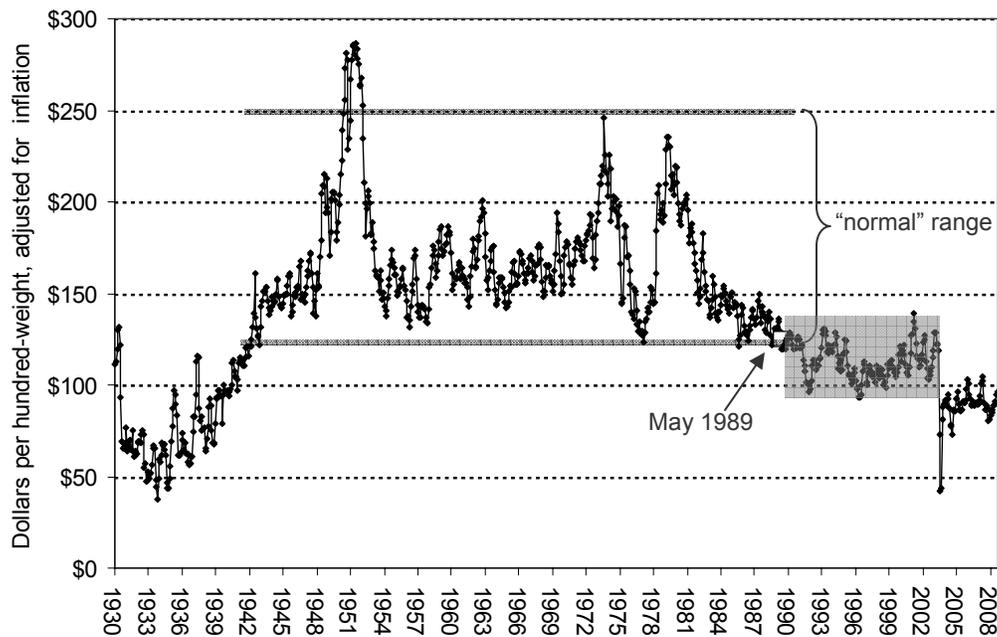
But on another level, this is a report about farming and public policy in a more general sense. It examines the challenges of truth-telling when billion-dollar profits are at stake. It examines the very idea of “free markets” and capitalism and competition in an economy where ownership is increasingly concentrated and foreign, and wherein we can no longer rely on finding arms-length transactions or dependable price reporting. This report examines the role of power in driving profit extraction—extraction from the farm level into the processing and retail levels; from rural communities to investors (usually urban and distant); and from workers, communities, and the environment, to the benefit of corporate balance-sheets. This report uses the cattle sector as a case study to examine how governments, citizens, communities, and transnational corporations interact in the new reality of globalized trade flows, huge corporations, and opaque and distorted markets. It is an attempt to clarify and update thinking about farming and food and markets—thinking too often mired in 1970s clichés, ideologies, and wishful thinking.

The cattle sector is in crisis. We can understand that crisis; we can solve it. And as we do, as we repair damage caused by corporate power and ill-conceived trade and regulatory schemes, we can lay the groundwork for understanding and solving the other crises that plague our nation. Saving the family-farm cattle sector replicates, in miniature, the larger project of restoring democracy, prosperity, sovereignty, and sustainability to our nation as a whole. We must succeed.

11.0 Main Report: Prices: Alberta fed cattle prices

Cattle prices have collapsed. The turning point was 1989. While the Executive Summary of this report highlights prices in Ontario, the situation in Alberta is even more stark. As Figure 10, below, illustrates, the first time Alberta cattle prices fell below the bottom of their post-WWII normal range was 1989. In that year, Cargill opened its first Canadian packing plant. 1989 marked the implementation of the Canada-US Free Trade Agreement (CUSTA). And 1989 and 1990 saw the takeoff of Canadian export volumes. Coincidence? No. This report argues that the events of 1989 and those in the years surrounding '89—Cargill's arrival, corporation concentration, CUSTA, captive supply, continental integration, and export overdependence—*caused* the price collapse visible since the late '80s. Further, this report will demonstrate that the conventional wisdom surrounding the crisis—that, for instance, it is caused by increases in currency values or grain prices—is false.

**Figure 10. Alberta fed (slaughter) steers
(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.

Figure 10, above, shows Alberta prices for fed steers—the prices beef packers pay for male (castrated) cattle, fattened and ready for slaughter and processing. Prices are based on live-weight. The graph lists monthly prices, in dollars per hundred-weight, adjusted for inflation. (\$100 per hundred-weight = \$100 per hundred pounds = \$1 per pound.)

Like the graph of Ontario fed steer prices, the Alberta graph reveals distinct periods. At the far left are the low prices of the Great Depression. Then in the early 1940s, slaughter-steer prices returned to a range we'll call "normal." The graph's two horizontal grey lines mark the top and bottom of a horizontal channel that defines the price range from 1942 to 1989. For 47 years,

beginning in '42 and lasting until '89, Alberta fed steer prices oscillated between a low of \$120 per hundred-weight and a peak of more than \$250 per hundred-weight (live-weight, adjusted for inflation). Prices rose and fell, *but not once in the 47 years between 1942 and 1989 did the price of Alberta slaughter steers fall below \$120 per hundred-weight. Never did prices breach the line that marked the bottom of the post-Depression normal.*

Then, in 1989, Alberta fed steer prices *did* drop below that \$120 per hundred-weight line. After '89, cattle prices continued to oscillate, but they did so within a much lower range of values. Instead of moving up and down between a low of \$120 and a high of \$250+, after '89, and until the 2003 case of BSE, prices rose and fell between a low of \$93 and a high of \$134. The *highs* 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 box highlights the prices for the 14-year period from 1989 to 2003.

In May 2003, a single case of BSE triggered a series of events that caused prices to fall still further. For two months Alberta slaughter steer prices dropped below \$50 per hundred-weight, before recovering, but only slightly.

This brings us to the current period. If we look at the graph's data points at the right-hand side, we see post-BSE-discovery prices—the current period—wherein Alberta fed steer prices have moved up and down between a low of about \$73 per hundred-weight and a high of about \$104. Again, the highs of this period, the post-BSE period, are about equal to the lows of the previous period, the 1989-to-2003 period. Note also: peak prices during the current period are *far* below the *lowest* prices of the 1942-to-1989 period. Moreover, prices in the current period—\$73 to \$104 per hundred-weight—match those of the Great Depression.

This past year (September 2007 to August 2008, inclusive), prices for Alberta slaughter cattle averaged \$87 per hundred-weight. But the inflation-adjusted average price for the nearly 50-year period between 1942 and 1989 was *\$167 per hundred-weight*—almost double the recent average. Again, in Alberta as in Ontario, we see packers paying farmers *half* of what packers paid in the 1940s, '50s, '60s, '70s, and '80s. These half-payments come despite large cost savings and efficiency* gains in packing plants (lower wages, higher productivity, economies of scale, increased production for export, etc.).

Cow-calf farmers, breeding stock producers, and independent feeders in Alberta are suffering today because packers are paying half as much as packers paid a generation ago. These half-price cattle are bankrupting family farmers across Alberta, and across Canada.

* Note that this report uses the terms “efficiency” and “inefficiency” in their conventional, business-pages sense. Another view is possible. It is easily demonstrable that the current cattle and beef systems use far more fossil fuel energy than their 19th-century or early-20th-century precursors. And the North American system uses far more energy than contemporary systems in the developing world. In terms of energy and resource use, the current North American meat system is probably the least efficient system in the world today, and the least efficient in the 10,000+ year history of animal husbandry and agriculture-based civilization. In this context, it is unclear what we actually mean when we label one North American beef packing plant “efficient” and another “inefficient.”

11.1 Main Report: Prices: Fed cattle prices in other provinces

The post-1989 collapse in fed (slaughter) cattle prices occurred in every Canadian province. Price graphs for Ontario and Alberta fed steers are included in the preceding pages (Figure 1 and Figure 10, respectively). Below are graphs of prices for Saskatchewan, Manitoba, New Brunswick, and Prince Edward Island. Each graph shows prices for fed steers, in dollars per hundred-weight, live-weight, adjusted for inflation. In each, we see the 1942-1989 normal range, the price collapse around 1989, and post-'89 prices that are approximately half of pre-'89 averages.

[Sources for all the Canadian cattle price graphs that follow are the same: 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 11. Saskatchewan fed (slaughter) steers
(dollars per hundred-weight, adjusted for inflation)
January 1930 – August 2008**

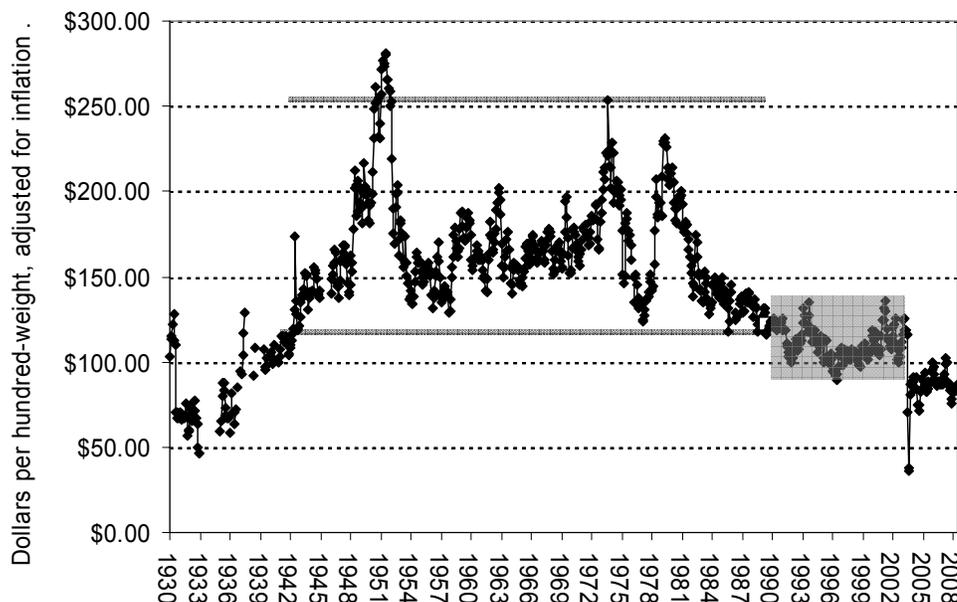
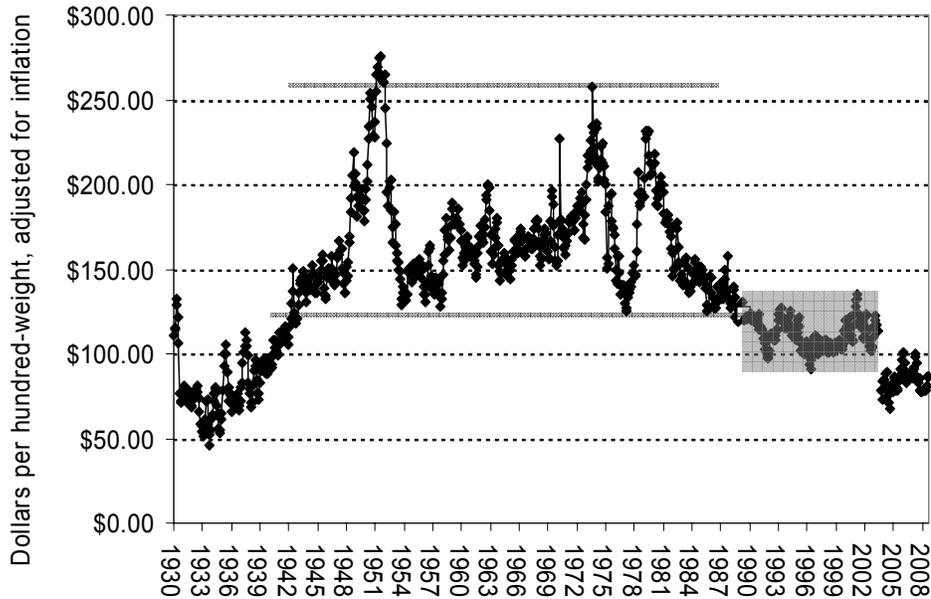


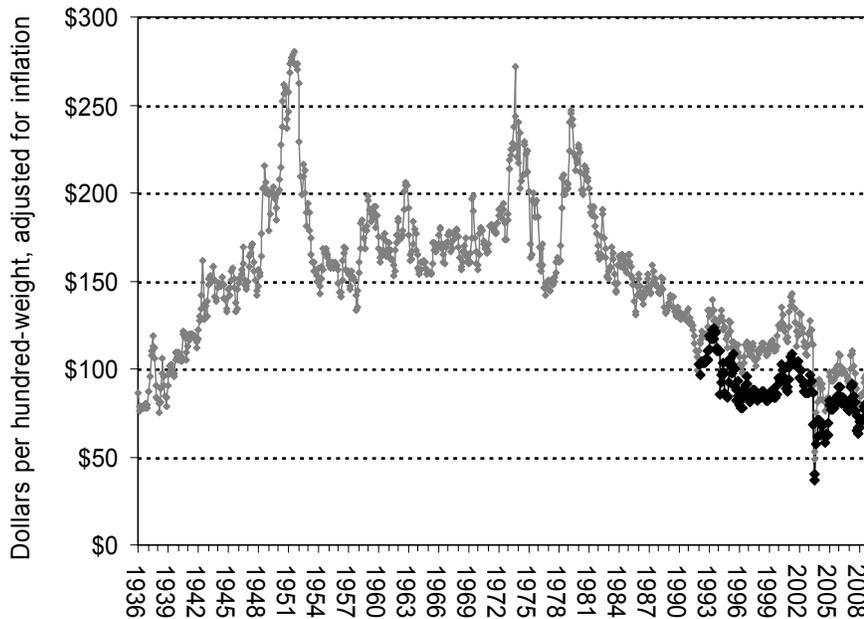
Figure 11, above, shows prices for fed steers in Saskatchewan, 1930 to 2008. As in previous graphs (and those that follow), prices are in dollars per hundred-weight, live-weight, adjusted for inflation. The average fed steer price for the past year (September 2007 through August 2008, inclusive) was \$84 per hundred-weight. The inflation-adjusted average for the 1942-to-1989 period was \$167.

**Figure 12. Manitoba fed (slaughter) steers
(dollars per hundred-weight, adjusted for inflation)
January 1930 – August 2008**



In Manitoba, the average price for fed steers for the past year (Sept. '07 through Aug. '08) was \$81 per hundred-weight. The inflation-adjusted average price for the 1942-to-1989 period was \$166.

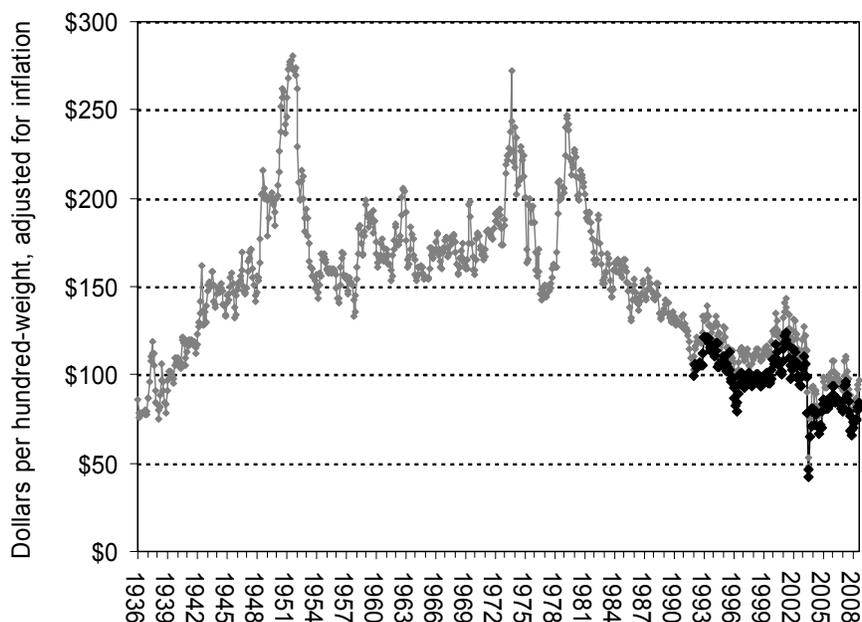
**Figure 13. New Brunswick fed (slaughter) steers
(dollars per hundred-weight, adjusted for inflation)
January 1992 – August 2008 (overlaid onto long-term Ontario data)**



Despite diligent efforts to locate long long-term cattle price statistics for New Brunswick and Prince Edward Island, no such statistics have so far been found; data is only available beginning in January 1992.⁴⁴ To give a sense of long-term price patterns in those provinces,

Figure 13, above, and Figure 14, below, overlay New Brunswick and Prince Edward Island data for the 1992-to-2008 period onto long-term data from Ontario. PEI and NB prices parallel Ontario prices post 1992; the assumption is that they do the same pre 1992. And if that assumption is true, or even partly so, then current PEI and NB prices are about half of their long-term averages.

**Figure 14. Prince Edward Island fed (slaughter) steers
(dollars per hundred-weight, adjusted for inflation)
January 1992 – August 2008 (overlaid onto long-term Ontario data)**



11.2 Main Report: Prices: *Feeder* cattle and calf prices

The preceding four graphs, Figure 11 to Figure 14, show *fed* cattle prices—the prices Cargill, Tyson, XL, and other beef processing corporations pay for finished cattle, ready for slaughter. Most such cattle are sold by feedlots to the packers. The following graphs show *feeder* cattle prices. Family farm cow-calf producers most often sell feeder cattle. Some sell younger calves, often in the 500-to-600-pound range, either to “backgrounders” or to feedlots. Others sell older, heavier feeder cattle, often in the 800-to-900-pound range, to feedlots.

A price graph for Ontario 800-to-900-pound feeder steers is provided in Figure 8. The following five graphs for 800-to-900-pound feeder cattle cover Alberta, Saskatchewan, Manitoba, New Brunswick, and Prince Edward Island.

**Figure 15. Alberta 800-to-900-pound feeder steers
(dollars per hundred-weight, adjusted for inflation)
January 1940 – August 2008**

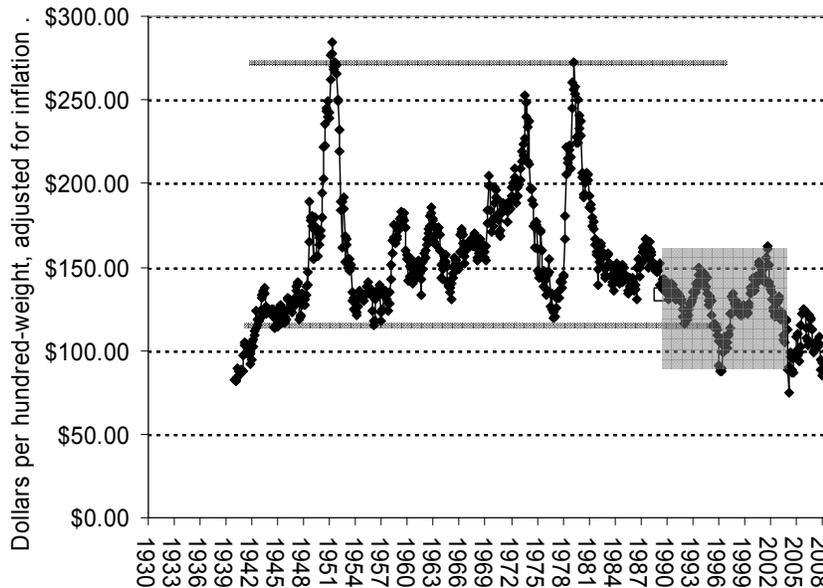
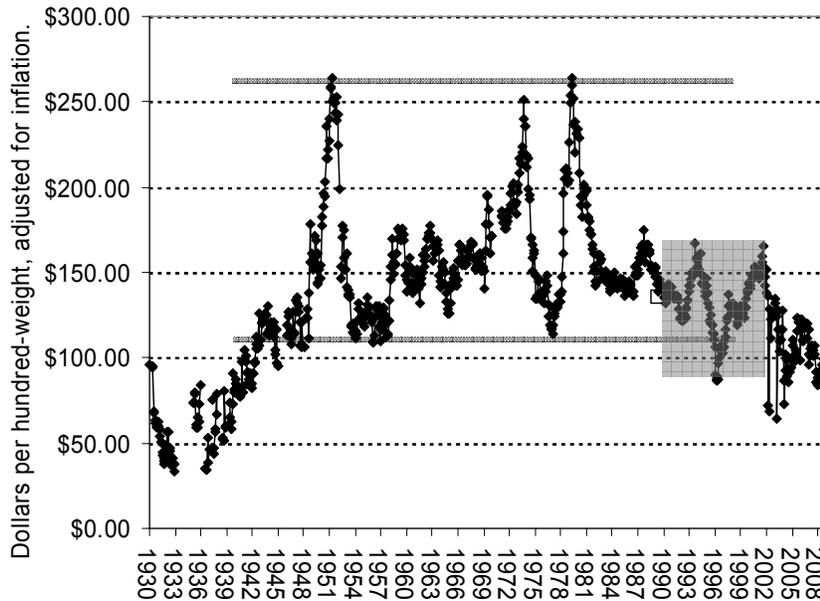


Figure 15, above, shows Alberta feeder steer prices (approximately 800 to 900 pounds⁴⁵). As noted in previous sections, while fed cattle prices in 1989 fell below the line that marks the bottom of the post-Depression normal, the price drop for feeder cattle lags somewhat—dropping below the bottom line of the post-Depression normal in the early 1990s. Again, this is expected, for at least two reasons: price reductions can take some time to work their way through the chain; and, most important, falling grain prices reduced feeders “cost of gain”, thus allowing declines in feeder cattle to be smaller than those for fed cattle, and somewhat delayed.

Nonetheless, the price range post 1989 is clearly lower than in the decades before that year. In this graph, we see prices in the 1942-to-1989 period in the \$120 to \$275 per hundred-weight range (see horizontal grey lines in the graph, above). Prices post-1989 are in the \$85 to \$160 range. The grey-shaded box highlights prices for the May 1989 to May 2003 period.

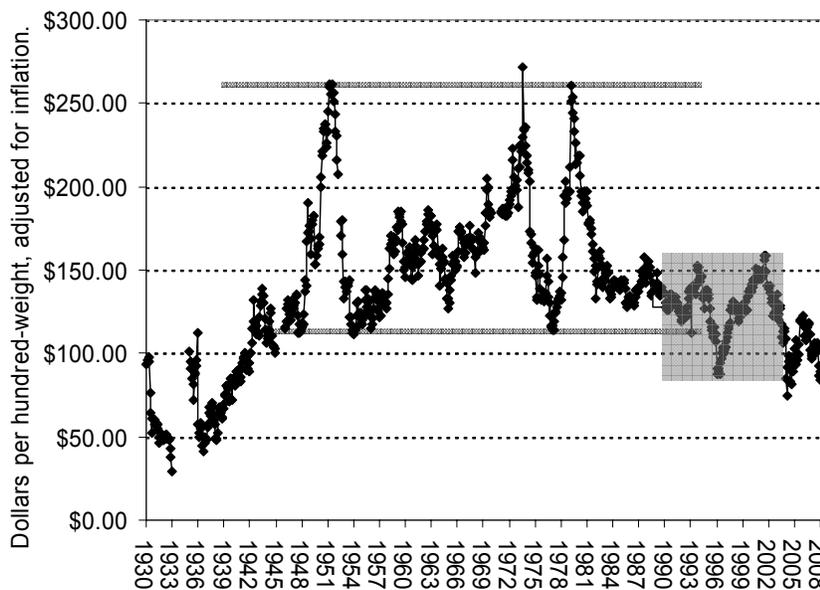
For 800-to-900-pound feeder steers in Alberta, the average price for this past year (September 2007 to August 2008, inclusive) was \$93 per hundred-weight. The inflation-adjusted average for the 1942-to-1989 period was \$162. Recent prices are little more than half of long-term normal prices.

**Figure 16. Saskatchewan 800-to-900-pound feeder steers
(dollars per hundred-weight, adjusted for inflation)
January 1930 – August 2008**



Data for Saskatchewan 800-to-900-pound feeder steers repeats the patterns identified in the previous graph. The average price of Saskatchewan feeder steers over the past year has been \$91 per hundred-weight. The inflation-adjusted 1942-to-1989 average was \$155.

**Figure 17. Manitoba 800-to-900-pound feeder steers
(dollars per hundred-weight, adjusted for inflation)
January 1930 – August 2008**



The average price of Manitoba 800-to-900-pound feeder steers over the past year was \$90 per hundred-weight. The inflation-adjusted 1942-to-1989 average was \$158.

Figure 18. New Brunswick Island 800-to-900-pound feeder steers (dollars per hundred-weight, adjusted for inflation) January 1993 – August 2008 (overlaid onto long-term Ontario data)

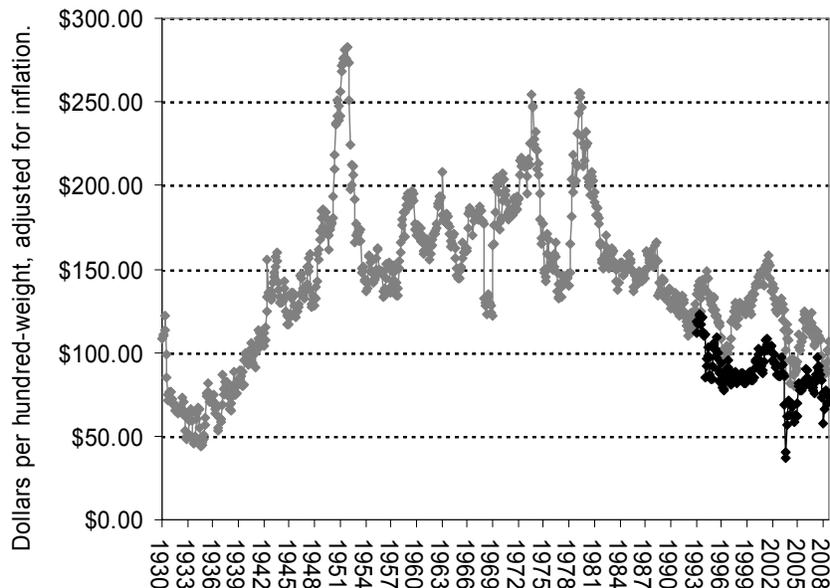
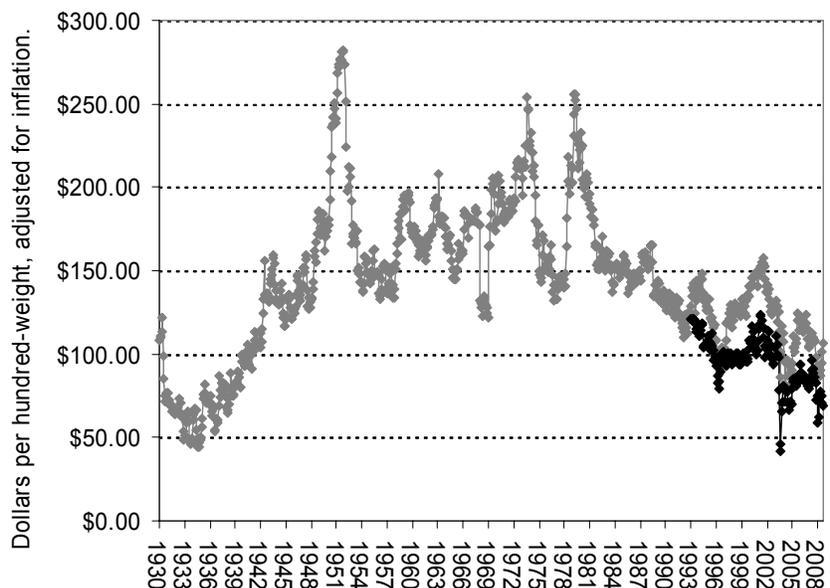


Figure 19. Prince Edward Island 800-to-900-pound feeder steers (dollars per hundred-weight, adjusted for inflation) January 1993 – August 2008 (overlaid onto long-term Ontario data)



At this time, long-term price data is not available for Prince Edward Island or New Brunswick feeder steers. To compensate for that lack of data, Figure 18 and Figure 19 overlay recent data from PEI and NB onto longer-term data from Ontario. It is very likely that NB and PEI feeder steer prices in recent years have been about half of their 1942-to-1989 average.

The preceding graphs show prices for 800-to-900-pound feeder steer cattle. The graphs below show prices for feeder steer *calves*, 500 to 600 pounds. A price graph for Ontario 500-to-600-pound feeder calves is provided in Figure 9. The following two graphs cover Alberta and Manitoba; graphs of feeder calf prices for other provinces are nearly identical to the two below.

**Figure 20. Alberta 500-to-600-pound feeder steer calves
(dollars per hundred-weight, adjusted for inflation)
January 1973 – August 2008 (overlaid data for Alberta 800-to-900-pound feeder steers)**

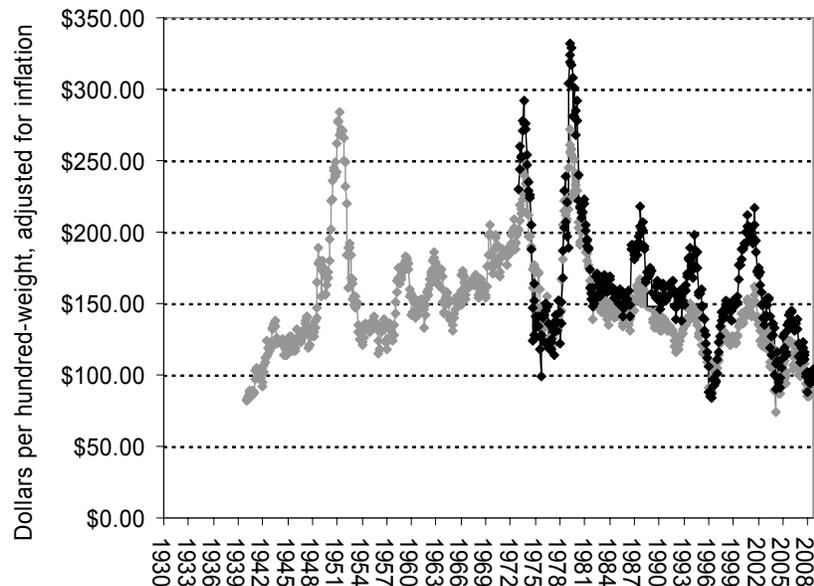


Figure 20 is a composite graph that helps depict Alberta feeder calf prices over the long term. There appears to be no consistent calf-price data before 1973.⁴⁶ In order to give some idea of long-term prices, Figure 20 overlays 35 years of price data for Alberta 550-pound feeder calves (steers) onto longer-term data for Alberta 800-to-900-pound feeder steers. Because calf prices roughly parallel 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 the prices of Alberta feeder calves before 1973, it is likely that the average prices for the past year—about \$99 per hundred-weight—is not much more than half of price averages for the 1942-to-'89 period. (The average price for the 1973-to-1989 period was \$183 per hundred-weight.)

**Figure 21. Manitoba 500-to-600-pound feeder steer calves
(dollars per hundred-weight, adjusted for inflation)
January 1973 – August 2008 (overlaid data for Manitoba 800-to-900-pound feeder steers)**

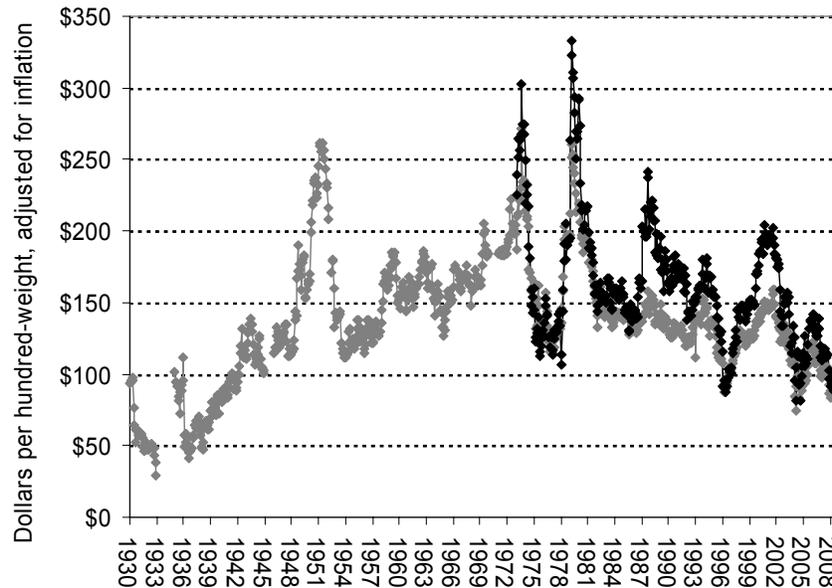
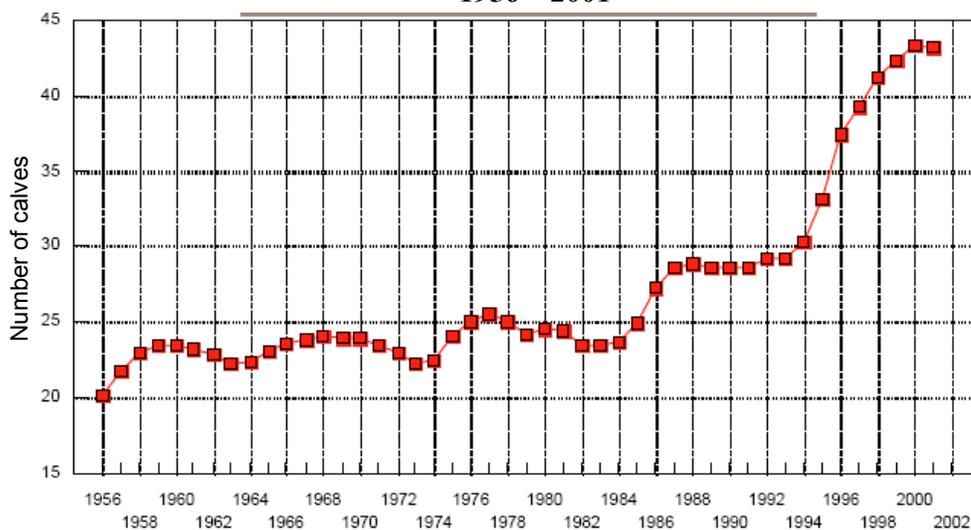


Figure 21 is a composite graph that depicts Manitoba feeder calf prices. The graph overlays price data for Manitoba 550-pound feeder calves (steers) onto longer-term data for Manitoba 800-to-900-pound feeder steers. It is likely that the average prices for the past year—about \$97 per hundred-weight—is not much more than half of price averages for the 1942-to-'89 period. (The average price for the 1973-to-1989 period was \$179 per hundred-weight.) The following is a graphic example of how these half-price calves are affecting the financial bottom lines for family-farm cow-calf producers.

**Figure 22. Number of US feeder calves (7-year moving average)
required to purchase a Ford F-150 pickup truck
1956 – 2001**



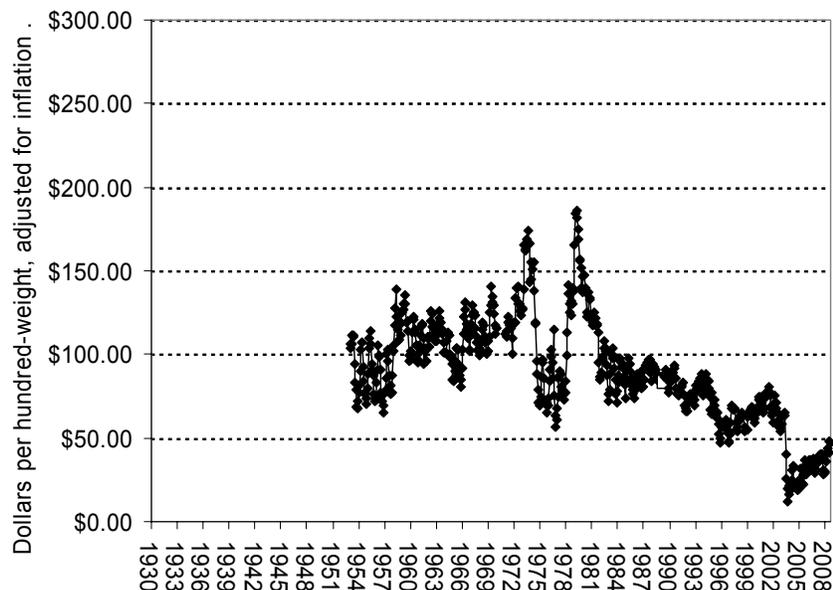
Source: Reproduced from The Alliance of Urban Consumers and Agrarian Producers, *Friends for Fairness in Fresh Foods Pricing* (that publication cites USDA and Ward's Automotive).

The number of calves a family farmer must raise and sell in order to buy a pickup truck has doubled—from the 20-to-25-calf range in the 1950s, '60s, '70s, and early '80s to the 40-to-45 range of recent years. Similarly, for nearly every input and tool—tractors, twine, bailers, barbwire—where one calf used to cover the cost, now two are required.

11.3 Main Report: Prices: Slaughter *cow* prices in various provinces

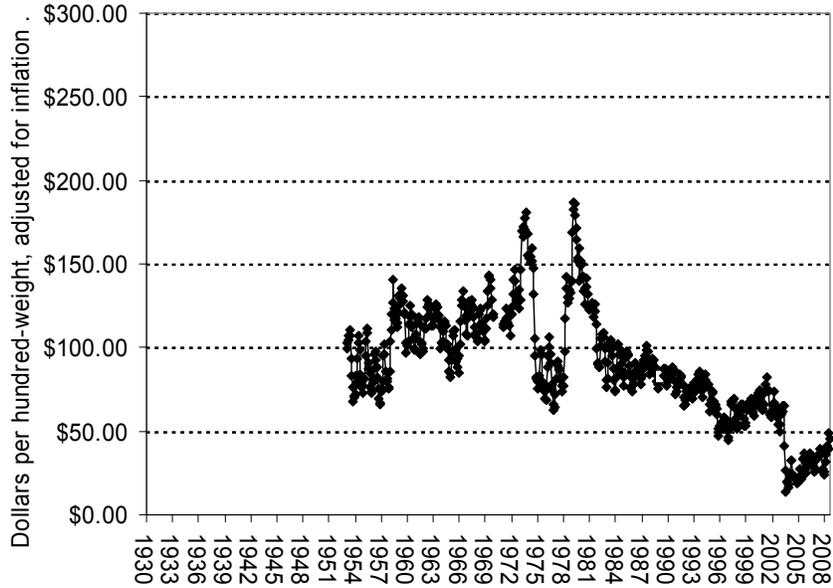
The following six graphs show prices for slaughter cows in Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, and Prince Edward Island. “Culled” dairy and beef cows are the source for much of the ground beef and hamburger consumed by Canadians. The following graphs show prices for slaughter cows (“D1, D2” grade; “Good” grade in earlier years), in dollars per hundred-weight, live-weight, adjusted for inflation. Sources are the same as those for fed and feeder cattle.

**Figure 23. Alberta slaughter cows
(dollars per hundred-weight, adjusted for inflation)
January 1952 – August 2008**

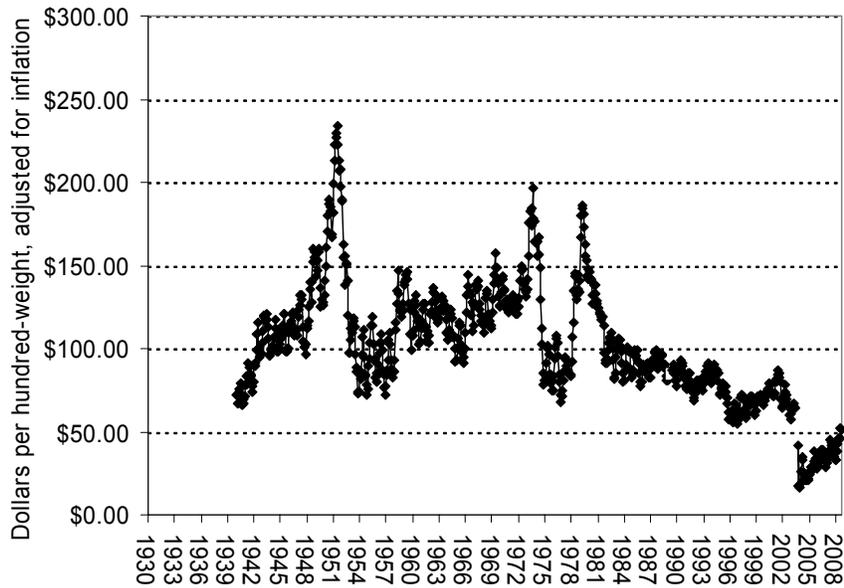


For several provinces, slaughter (“cull”) cow prices are only available beginning in 1952.⁴⁷ (For a few provinces, data is available beginning in 1940.⁴⁸) Alberta cow prices over the past year (September 2007 to August 2008, inclusive) averaged \$38 per hundred-weight. The inflation-adjusted average for the 1952 to 1989 period was \$105—nearly three times as much. That same relation—recent cull cow prices about one-third of long-term normals—applies to every province and every graph that follows.

**Figure 24. Saskatchewan slaughter cows
(dollars per hundred-weight, adjusted for inflation)
January 1952 – August 2008**

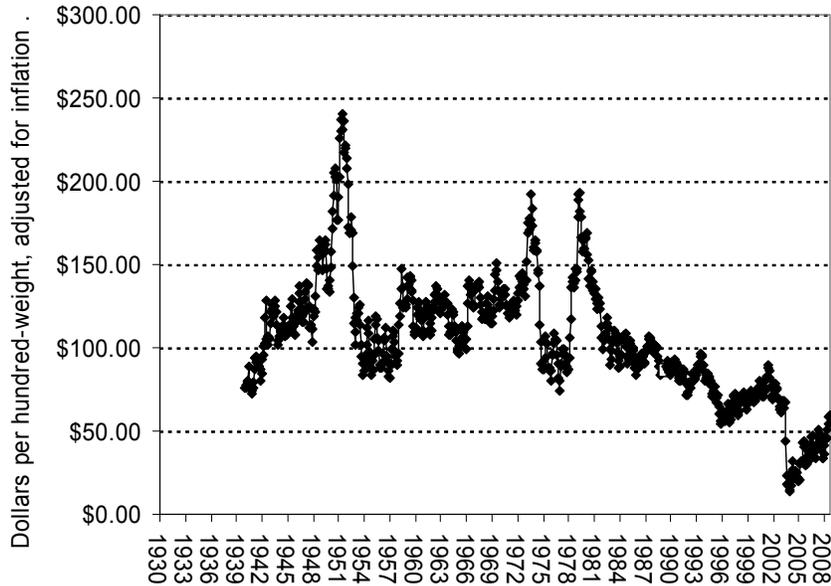


**Figure 25. Manitoba slaughter cows
(dollars per hundred-weight, adjusted for inflation)
January 1940 – August 2008**

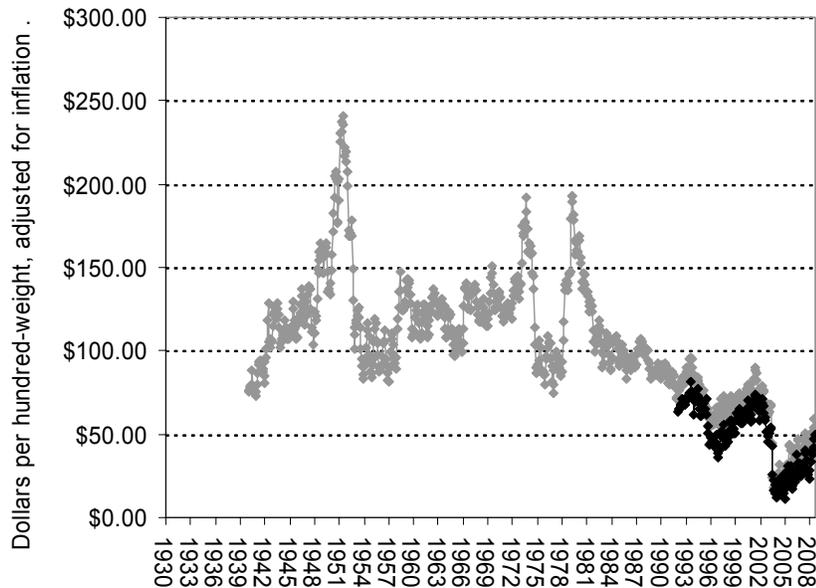


Cull cow price data for Manitoba is available beginning in 1940. Again, recent-year average prices are one-third of their pre-1989 long-term average.

**Figure 26. Ontario slaughter cows
(dollars per hundred-weight, adjusted for inflation)
January 1940 – August 2008**



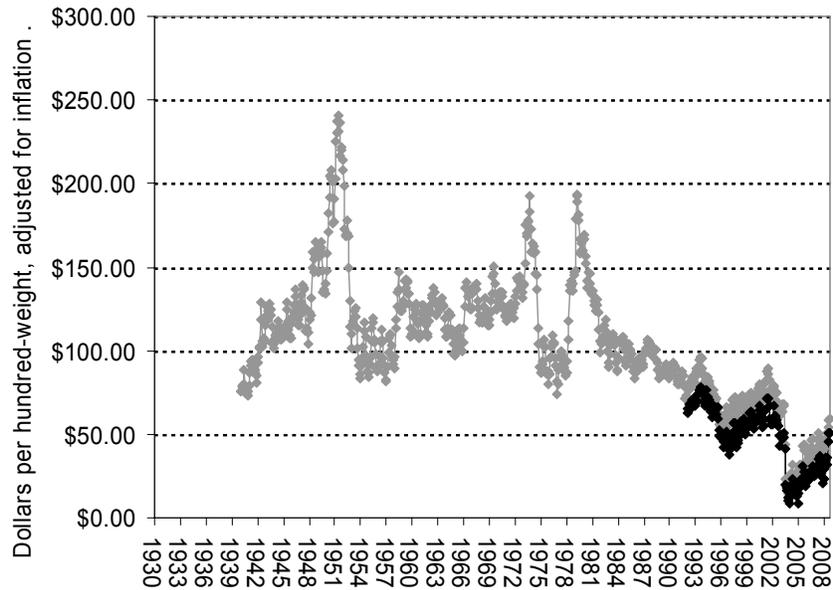
**Figure 27. New Brunswick slaughter cows
(dollars per hundred-weight, adjusted for inflation)
January 1993 – August 2008 (overlaid onto long-term Ontario data)**



Because long-term cull cow price statistics are not available for New Brunswick or Prince Edward Island, Figure 27, above, and Figure 28, below, overlay post-1993 data for these

provinces onto longer-term data from Ontario. One can safely make the assumption that PEI and NB cull cow prices today are about one-third of their pre-1989 averages.

**Figure 28: Prince Edward Island slaughter cows
(dollars per hundred-weight, adjusted for inflation)
January 1993 – August 2008 (overlaid onto long-term Ontario data)**



Across Canada, cull cow prices are a scandal. As this report will demonstrate, consumers are paying dearly for ground beef, farmers are receiving Depression-era prices for cows, and retailers and packers are taking unexplainable amounts in between.

12.0 Main Report: False causes: Introduction

Understanding causes is critical: if we misdiagnose, we mistreat.

This report diagnoses the current cattle price collapse as a direct consequence of events that have their roots in the late 1980s. This report asserts that, over the past 20+ years, there has been a shift in the allocation of revenues and profits within the beef sector, driven by a shift in power relationships and changes in trade and regulatory frameworks.

But others diagnose differently. If you attend a meeting of cattle producers, experts very likely will point their fingers at various other causes, including a rising Canadian dollar, higher feed costs, BSE, and ethanol.

Unarguably, these factors all do play roles in exacerbating the current crisis—for example, the effects of BSE can clearly be seen in the price graphs throughout this report. However, these “causes” fall far short of explaining the full picture. They do not explain the data; they explain neither the timing of the post-’89 price collapse, nor its magnitude.

The following section looks critically at the explanations advanced by cattle organizations, governments, and others. Our aim here is to interrogate these analyses and, if found wanting, to dispose of them. The goal is to provide clarity; to dispel false diagnoses so correct ones may proliferate in their place. Most importantly, the aim is to set the stage for implementing effective actions to *end* the current cattle price crisis.

To switch metaphors: Policy analysis is like renovation; it sometimes begins with a bit of demolition, and a check to ensure that the foundations are sound.

12.1 Main Report: False causes: The high dollar and grain prices

Many analysts—perhaps never having had the benefit of examining long-term price graphs—date the beginning of the current cattle price crisis to sometime in 2006 or 2007. These analysts then go looking for causes rooted in that same period. Thus, in many quarters, there is broad and uncritical consensus on the causes of the current crisis. Governments, media, many cattle organizations, and industry sing a harmonious chorus: The crisis is caused by a rising Canadian dollar and rising feedgrain prices. To these major causes, some add secondary factors such as SRM removal costs.

The following is a selection of opinions attributing the current crisis to currency and grain values.

The Government of Canada knows that hog and cattle farmers are having a tough time right now. They're facing pressures from the rising value of the dollar, high feed costs and other factors beyond their control.—Minister of Agriculture Gerry Ritz, as quoted in Manitoba Cattle Producers Association, *Cattle Country*, December 2007.

Right now Canadian livestock producers are struggling with a high dollar and high production costs.—Minister of Agriculture Gerry Ritz, news release, February 25, 2008.

A very strong Canadian dollar and higher feed costs have pressured the feeder market down significantly this year.—CanFax *Weekly Summary* (e-mail newsletter), November 16, 2008.

A high dollar, coupled with massive increases in feed-grain prices, is laying waste to the West's iconic ranching business.—Kevin Libin, "Hard times back for cattlemen," *National Post*, June 16, 2008.

The rising Canadian dollar, increased feed costs, and new regulatory issues are making it difficult for Saskatchewan cattlemen to remain competitive.—Susan Echlin, Sask. Cattle Feeders Association, news release, November 8, 2007.

The high cost of feed and the strong Canadian dollar has put many livestock operations in worse jeopardy [than the] BSE crisis did!—Rick Wright, "The Bottom Line," Manitoba Cattle Producers Association, *Cattle Country*, December 2007.

. . . the growing livestock market crisis caused by high feed costs and Canada's high dollar.—*Owen Sound Sun Times*.

Ironically, the biggest single factor—the appreciating Canadian dollar—is the one that we have the least control over and the least experience in dealing with.—Hugh Lynch-Staunton, then-President, Canadian Cattlemen's Association, Proceedings of the Senate Committee on Agriculture, November 22, 2007.

Feeder cattle prices continue to be impacted by continued strength in both the Canadian dollar and grain prices.—Government of Saskatchewan, *Cattle Market Update*, week of October 1-5, 2007.

As the grain prices rose and the dollar rose, calf prices started to drop.—Martin Unrau, President, Manitoba Cattle Producers Association, *Cattle Country*, December 2007.

We realize the gravity of issues that producers are facing, from the rapid escalation of the Canadian dollar, to feed grain costs, to the increasing regulatory burden.— Erik Butters, Chairman, Alberta Beef Producers, news release, “Fall meetings promise to highlight cattle producer issues,” no date.

Cattle and hog prices continued to be pressured by high feed grain prices and the rising value of the Canadian dollar.—Statistics Canada, *The Daily*, January 23, 2008.

The surge in the Canadian dollar and the high price of grain has resulted in lower calf prices during this year's fall run.—Ontario Cattlemen's Association, *Weekly Update*, November 2, 2007.

Both sectors [hogs and cattle] have been suffering from low prices brought on by an increase in the value of the Canadian dollar and very high feed grain prices.—Government of Saskatchewan, news release, December 21, 2007.

A high loonie and soaring grain prices are creating financial havoc for the hog and beef industries, threatening thousands of Manitoba jobs, the president of Keystone Agricultural Producers says. David Rolfe said he is really surprised the federal and provincial governments aren't doing more to help livestock producers weather the downturn caused by the high Canadian dollar, poor market returns and expensive feed grain prices.—Larry Kusch, “Livestock producers struggling to survive,” *Winnipeg Free Press*, January 23, 2008.

Higher volumes on offer, the stronger Canadian dollar and higher feed costs all were negative factors in the weaker [fed cattle] market.—Alberta Agriculture and Food, *Quick Market Commentary*, September 21, 2008.

The economic picture for cow-calf producers is going from bad to worse. The strong Canadian dollar has cut returns for fed cattle. At the same time, feed grain prices are moving into record high territory. . . . As a result of these factors, calf prices have been dropping like a stone the past couple weeks as we move into what is usually the main part of the fall calf run.—Kevin Hursh, “Hursh on Agriculture,” October 4, 2007.

The current low calf prices are primarily the result of a higher value Canadian dollar, rising feed grain costs and increased border regulatory costs.—Agricultural Producers Association of Saskatchewan and Rocky Lake Management, *Cow-Calf Sector in Crisis*, Executive Summary, June 2008.

The strong Canadian dollar, as we all know, is really affecting a lot of the things that are happening in agriculture right now. And when we come to cattle prices, with high feed costs, as I said before, are putting them really behind the eight ball out there, and there's a lot of hurt right now out there. We're hoping now that the barbecue season is coming on and spring is coming that we're going to see a little bit of improvement in the price.—Saskatchewan Minister of Agriculture Bob Bjoernerud, Standing Committee on the Economy, Hansard Verbatim Report, No. 5, April 15, 2008.

The overwhelming consensus is that the primary cause of the cattle price crisis is a high dollar and high grain prices. Fortunately, that hypothesis is testable. All we need do is ask: Have the dollar and grain prices been this high before? If so, did that previous period of high currency and grain price values correlate with exceptionally low cattle prices? Because, if previous currency

and grain-price peaks *do not* correlate with cattle-price troughs, then the assertion that currency and feedgrain values are to blame today is probably false.

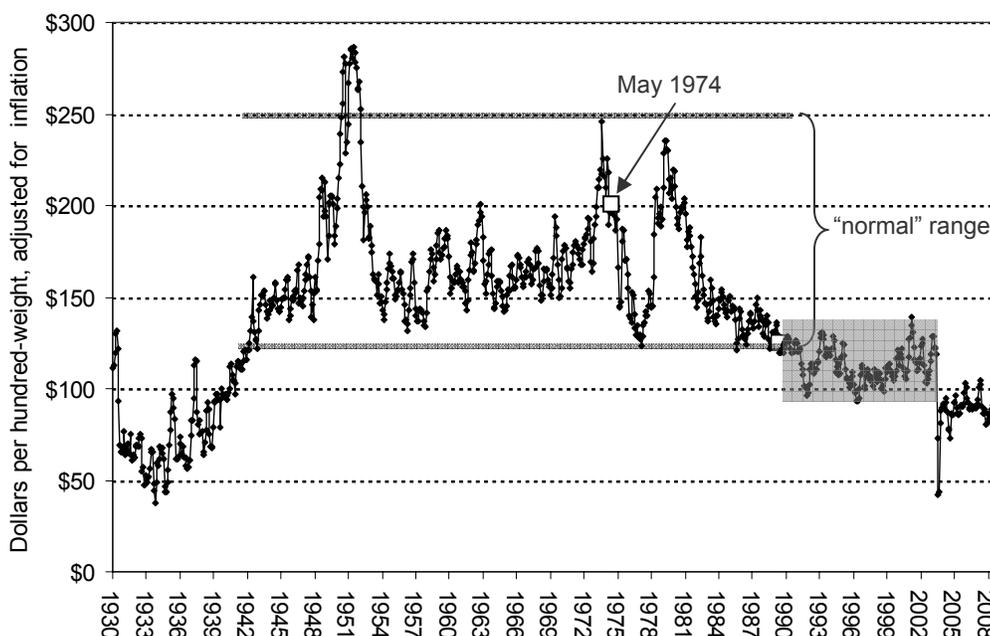
We have a test case: May 1974. 1974 marks the post-1960 peak in the value of our dollar, relative to the US currency. The average value of our dollar in May '74 was nearly \$1.04 US—the highest monthly average value in the past 48 years.

Also in 1974, grain prices were very high. Adjusted for inflation, western Canadian feed barley prices were over \$10.50 per bushel, farmgate (CWB final price, 1973/74 cropyear).⁴⁹ Ontario corn prices were similarly high—1974 prices of \$3.03 per bushel work out to well over \$13.00 per bushel when adjusted for inflation.⁵⁰

In 1974, the value of the Canadian dollar averaged higher than any year since, and corn and barley prices were much higher than in recent years. Therefore, if high currency values and high grain prices lead to low cattle prices, then prices in 1974 must have been very low indeed.

But that wasn't the case. Figure 29, below, again shows Alberta fed steer prices, live-weight, adjusted for inflation. May 1974 is highlighted. Note that fed cattle prices in that month (with a record-high Canadian dollar and \$10+ feedgrain prices) were over \$200 per hundred-weight. Prices in Manitoba, Ontario, and other provinces were even higher.

**Figure 29. Alberta fed (slaughter) steers
(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.

Admittedly, prices did fall in the months following May '74, partly as a result of the high grain and currency values. But where they fell was to \$120 per hundred-weight—prices haven't been that *high* in years. And then, just a few months after the 1974 decline, prices quickly recovered.

In May of 1975, despite continued high grain and currency values, the price for Alberta fed cattle was back up to \$178 per hundred-weight. The price in Ontario was \$194.

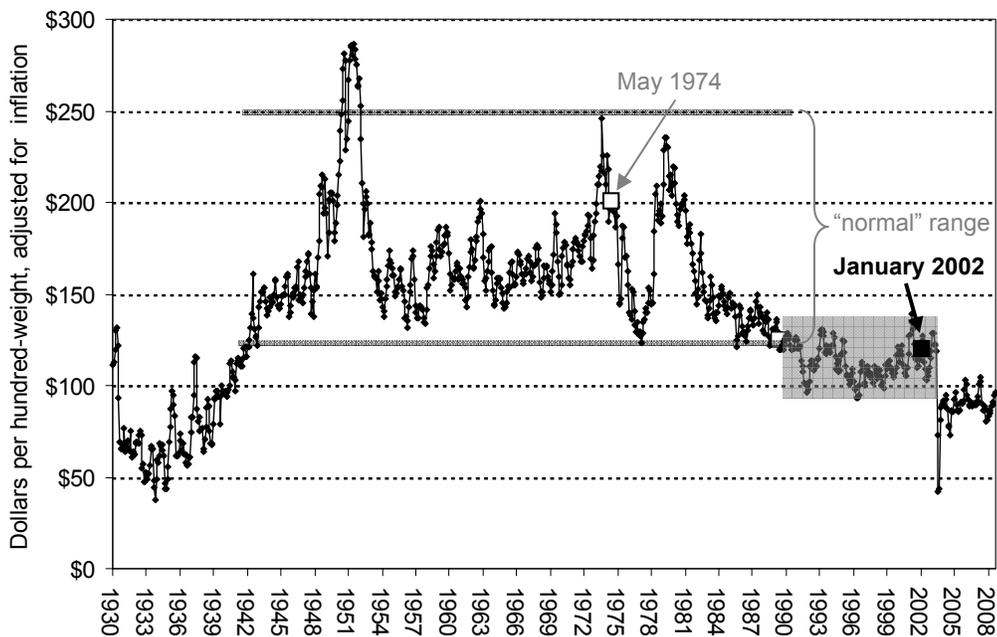
Feedgrain and currency values today are comparable to those of 1974, but the price of cattle is less than half its 1974 level. There must be additional factors at work. The grain price and currency value explanation appears very shaky.

But some will remain unconvinced; indeed, the attraction of the currency-and-grain-price explanation is very strong. So let's test the theory again, this time in converse. The currency-and-grain-price hypothesis predicts that when our dollar's value and grain prices are high, cattle prices will be low. It thus necessarily predicts the opposite: when currency values and grain prices are low, cattle prices will be high. Again, we can test this.

In January 2002, the Canadian dollar hit its all-time low—a monthly-average value of 62.5¢ US. That same period also featured very low feedgrain prices. Ontario corn prices were near \$4 per bushel. (Depression-era prices were higher, adjusted for inflation.) Barley prices were similarly at (or near) the bottom of their historic range (see Figure 32 and Figure 33, below).

Thus, with a record-low dollar and near-record low feedgrain prices, cattle prices should have been near record highs in January 2002. They weren't. They were near post-WWII lows. Figure 30, below, highlights January 2002 and its far-from-record-high cattle prices.

**Figure 30. Alberta fed (slaughter) steers
(dollars per hundred-weight, adjusted for inflation)
January 1930 – June 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.

If the feedgrain-and-currency hypothesis is correct, then 1974 cattle prices would be among the lowest recorded and 2002 prices among the highest. The reverse is true. Prices in 2002 were

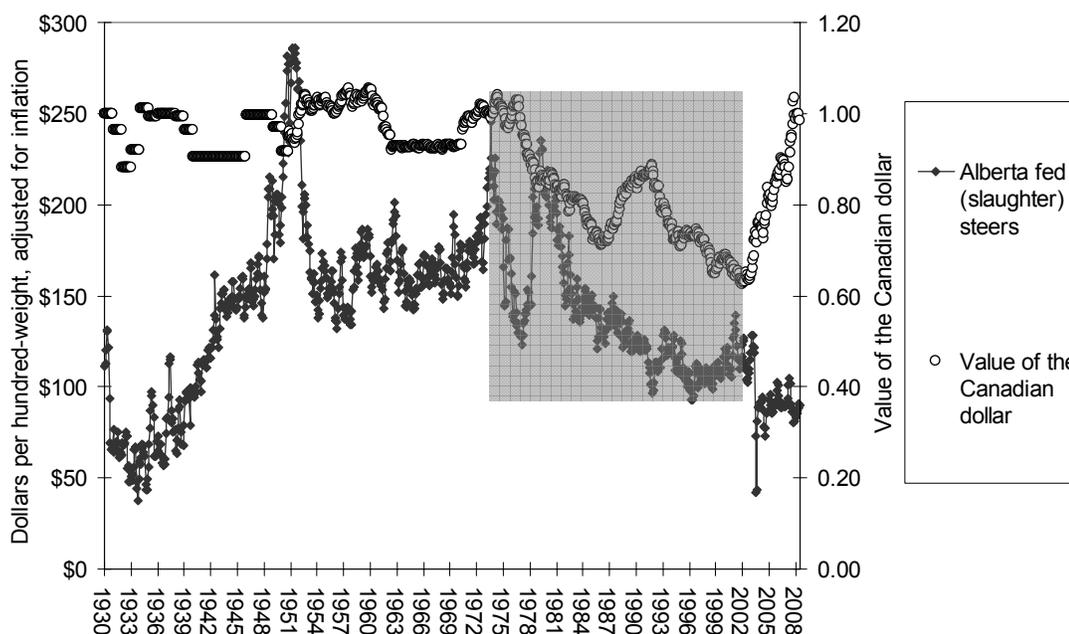
about half those of 1974. The hypothesis that cattle prices can be explained by currency values and feedgrain prices does not hold up.

But for those who remain unconvinced, here's one final look at the data. Figure 31, below, graphs the value of the Canadian dollar and the price of fed cattle from the 1930s to the present. According to the high-currency-values-lead-to-low-cattle-prices hypothesis, as the dollar goes down, cattle prices should go up. But look at the period between the mid-'70s and 2002—the shaded area in Figure 31. The dollar declined significantly and consistently—falling from \$1.04(US\$) to 62¢(US\$). But cattle prices also fell. For nearly 30 years, cattle prices moved *opposite* to the direction predicted by those who claim that a rising dollar triggers falling cattle prices and a falling dollar triggers rising prices.

Further, after 2002 the Canadian dollar gained value rapidly and consistently—the fastest and strongest rally in history. But it does not appear that cattle prices fell as a result. Cattle prices were lower following the BSE crisis—perhaps *as a result of* the BSE crisis. But in the five-year period between late 2003 and today, cattle prices have remained more-or-less flat, despite a skyrocketing Canadian dollar. Put another way, the prices over the past year were not much different than prices in late 2003, a time when the Canadian dollar was 75¢ (US).

Figure 31 goes a long way toward dispelling the idea that there is a reliable inverse relationship between the value of the dollar and the price of cattle.

**Figure 31. Alberta fed (slaughter) steers
(dollars per hundred-weight, adjusted for inflation)
and Canadian currency values
January 1930 – June 2008**



Sources: Fed steer price sources same as previous; currency value data from Statistics Canada CANSIM database.

The preceding graphs and text prove that grain and currency values neither cause nor predict large movements in cattle prices. But that is not to say that the dollar and grain prices have *no*

effects. While it is likely that these factors play some part in the price declines cattle farmers are experiencing, that part is probably not large. Cattle prices are currently half their 1942-1989 averages. Had the dollar not moved, it is probable that cattle prices would be a few percent higher, maybe even as much as 10% or 15%, but they certainly would not be double. Thus, even if we accept that movements in the dollar and grain prices have had some effect, the majority of the price decline remains unexplained.

12.1.1 Main Report: False causes: A rising dollar and grain prices: One more note about the dollar

There are other reasons to be skeptical of explanations that put too much emphasis on currency values when explaining cattle prices. One reason is this: while it may be true that a rising Canadian dollar can decrease relative cattle prices here, that rising dollar also creates offsetting benefits that are often ignored. Chief among those offsetting benefits is that the same rising dollar that can hurt cattle prices also results in declining feedgrain prices—thus helping support cattle prices.

A rising dollar can push fed cattle prices down, but it can also push grain prices down, thus, helping feeder cattle prices to rise. The one effect partially offsets the other.

The cost of feedgrains makes up about 70% of the cost of finishing cattle in feedlots.⁵¹ Feedlot operators reverse price—they estimate a future price for the finished fat steer or heifer, subtract projected feed costs and other costs, and then determine what they can afford to pay cow-calf producers for feeder calves. Thus, as feedgrain costs go down, the prices that feedlots pay cow-calf producers for feeder cattle can go up. The same rise in Canadian currency values that would, theoretically, cause fed cattle prices to decline from \$100 per hundred-weight down to \$75 would also cause barley prices to decline from \$5 per bushel down to \$3.75, and corn prices to decline similarly.

Therefore, increases in Canadian currency values have *two* effects, not one: to reduce the relative price packers pay for finished cattle (putting downward pressure on feeder cattle prices), but also to reduce the price of feedgrains, and, thus, the cost of cattle finishing (putting *upward* pressure on feeder cattle prices). The latter effect partly offsets the former; the question is: By how much?

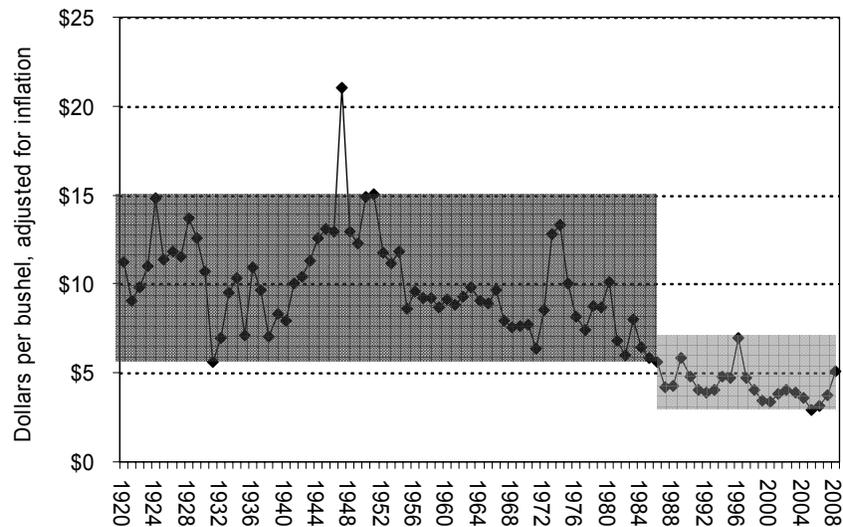
More research is needed in order to determine the extent of the offset between currency-related feedgrain price changes and currency-related fed cattle price changes. But we do have some preliminary indications. During questions following his February 7, 2008, presentation at the Beef and Forage Symposium in Saskatoon, respected livestock analyst Dr. Kurt Klein attempted to quantify the offsetting effect. His estimate was that up to 70% of the price-depressing effects on cattle might be nullified by offsetting decreases in feedgrain prices. The currency effect on cattle prices may only be about one-third as strong as proponents of that hypothesis imply. (Note: these offsetting effects apply only to feeder cattle and calves, not to fed cattle. Again, more research is needed to understand and quantify these effects.)

Thus, we begin to see why long-term cattle prices might fail to correlate with currency values—the causative effects are relatively weak, partly as a result of feedgrain price changes offsetting fed cattle price changes. We also begin to see that the cattle price crash—on both the feeder and fed cattle sides—requires a much better explanation than that offered by currency values.

12.1.2 Main Report: False causes: High feed costs

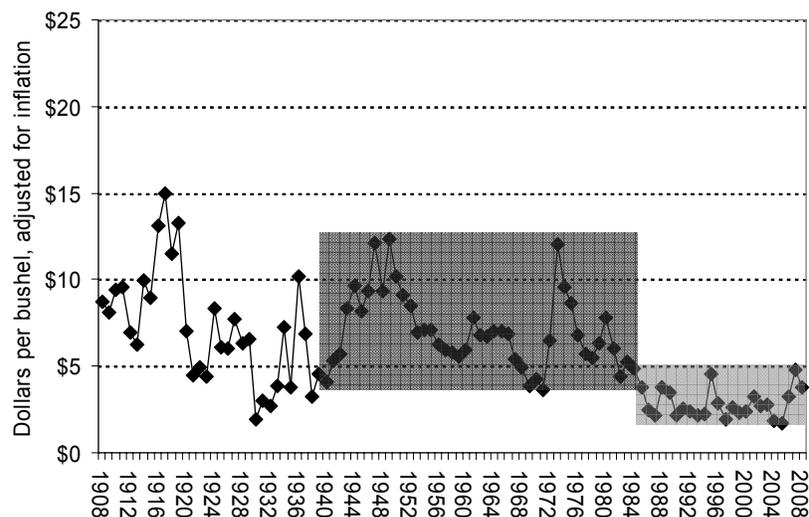
Yet another fact contradicts the oft-heard high-dollar-and-high-grain-prices-cause-the-cattle-crisis argument: Grain prices are not high. Figure 32 and Figure 33 show corn and barley prices over the past nine or ten decades. Both graphs show dollars per bushel, at area elevators, adjusted for inflation. We see that although grain prices have moved somewhat higher in the past two years, prices are not yet high—recent prices are just nearing the *bottom* of their 1933-to-1986 range.

**Figure 32. 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.

**Figure 33. Western barley
(dollars per bushel, adjusted for inflation)
1908 – 2008**



Source: Statistics Canada, CANSIM database; and Saskatchewan Agriculture and Food, StatFacts. Values for 2007 and 2008 are representative approximations.

Recall the quotations from the beginning of this section: “. . . massive increases in feed-grain prices . . . very high feed grain prices . . . soaring grain prices . . . feed grain prices are moving into record high territory. . . .” The preceding two graphs show that feedgrain prices today are definitely higher—higher than the worse-than-the-Depression prices that have held from the latter 1980s until 2006. But prices today cannot be called “high.” Talk of “massive increases” and “record-high” feedgrain prices shows a profound failure to understand the historical context. To offer just a little of that context: record-high corn prices would be in the range of \$15 to \$20 per bushel. More modestly, a record for the past 40 years would put corn prices above \$13. Similarly, barley would have to top \$12 to enter “record high” territory. And with regard to “soaring” prices and “massive increases,” the two graphs above show that increases over the past two years have been relatively modest, both in magnitude and rate.

There is a flip side to the preceding—to the oft-repeated argument that “high” grain prices are hurting cattle farmers. Many have long worried that North American livestock markets have been too comfortable in adjusting to extremely low feedgrain prices. Some have been explicit: “This industry was built on cheap feed grains and a low dollar, and all of a sudden now we have neither one,” stated one Claresholm, Alberta, rancher.⁵² Feedgrain has been cheap since the latter 1980s. Grain producers have needed multi-billion-dollar-per-year taxpayer subsidies just to stay on the land and to continue producing that cheap grain. The government has designed, implemented, scrapped, and replaced a long list of support programs—GRIP, NISA, AIDA, CFIP, CAIS—in order to get money into farmers’ hands. If we are honest, we will probably admit that much of the profitability that had appeared to exist in the cattle sector in the 1990s and the first three years of this decade was the result of the sector’s being able to access North American feedgrains at prices far below the actual costs of production.

There is no reason why the cattle and beef sectors should be unable to deal with current grain price levels—levels *far* below price averages for the past 50 years. That these relatively modest feedgrain prices are causing so much pain in the sector—and they are—is an indication of severe malfunction elsewhere in the chain. Stated another way, the very low feedgrain prices of the 1987-to-2005 period should have led to wide margins and a sustained windfall for family farm cattle producers and independent feeders. Then, in the past two years, those very wide margins could have narrowed as feedgrain prices rebounded to more normal levels. This did not occur. Instead, the benefits of those sub-normal feedgrain prices (and the taxpayer subsidies that made them possible) were captured by packers, retailers, or both, as those players pushed down live cattle prices and compressed farmers’ margins. Today, there is no room in those meagre margins to absorb even modest feedgrain cost increases. The problem is not that grain prices have risen too high, but rather that cattle farmers’ margins have been driven too low.

12.1.3 Main Report: False causes: High feed costs revisited

This report makes a subtle but extremely important distinction. It rejects the idea that rising grain prices can explain more than a small fraction of the current cattle price situation. But it makes the case that nearly 20 years of unnaturally low grain prices have *masked* a cattle price collapse

that dates back to 1989, and that recent increases in grain prices have unmasked that long-term price collapse. This distinction is critical. Higher grain prices have not caused the current crisis; rather, higher grain prices have merely caused the crisis to become visible.

12.1.4 Main Report: False causes: The dollar and feedgrains: Conclusion

The many quotations at the beginning of this section demonstrate how widespread is the view that rising feedgrain and currency values cause the cattle crisis. If that view is wrong, why is it so popular? The answer: Because it is both safe and convenient.

By pinning the blame for the cattle price collapse on grain prices and the dollar, politicians, cattle organization reps, and the media are spared the need to ask tough questions about power and profit within the system. They are spared the need to ask why our hyper-efficient system can pay farmers only half what they received a generation ago, or to ask about captive supply, about the effects of free trade, or about corporate concentration. The profits of the powerful are not threatened when the farmers rend their garments over high corn prices or a rising loonie.

Another reason for the allure of the dollar-and-grain-price explanation is that those who accept it are relieved of the responsibility to actually do anything. If the crisis is caused by high grain prices and the dollar, these are things we cannot change. Canada cannot intervene and effectively push the value of the US dollar either up or down (even the United States seems unable to do that). And we're unlikely to try to drive down US corn prices by 50% (the price of US corn significantly affects the price of Canadian corn and feed barley). More to the point, alone we as a nation probably cannot reverse the unprecedented food supply drawdown that underpins rising prices for corn and other grains. The acceptance of the dollar-and-grain-price hypothesis leaves the status quo safe. It relieves us of the burden of tough questions or difficult solutions. Its ubiquity is a reflection of its utility: It lets everyone off the hook.

12.2 Main Report: False causes: Ethanol

Many analysts and cattle-organization reps want to blame ethanol for the sorry state of the beef sector. Using corn and wheat as the basis for a motorfuel, they say, drives up prices and, thus, drives up cattle feeders' costs. Ethanol, however, plays only a very minor role. Here's why. First, the cattle price collapse happened in 1989. The diversion of significant quantities of feedgrain into ethanol didn't begin until a dozen years later.

Second, the ethanol-is-the-problem analysis tries to explain why feedgrain prices are high. But *they aren't high*. As grain price graphs in this report show (see Figure 32 and Figure 33), even after recent increases, grain prices are just now approaching the *bottom end* of their long-term normal range. Pre-ethanol-era grain prices in 1950s, '60s, '70s, and '80s were *far* higher than prices now.

Third, even if we reject the preceding points and pretend that grain prices today are "high," the pressures underlying recent price increases don't correlate well with ethanol production. We are

in the ninth year of what is almost certainly the fastest and most sustained food-supply drawdown of the past 100 years (outside of wartime). Consumption running ahead of production has cut global grain supplies in half between 1999 and 2007.⁵³ The 1999 beginning of that food supply drawdown, however, predates significant ethanol production from corn. The drawdown, while exacerbated by ethanol, has other very significant drivers, not least of which are the following two:

1. a global population increase that is equivalent to adding a North American population (about 514 million people) to the world every 7 years;⁵⁴ and
2. a doubling of world meat consumption since 1982⁵⁵ (with an attendant increase in feedgrain demand).*

Global human population continues to increase very rapidly—approximately 79 million additional people per year. Moreover, livestock production and meat consumption rates are increasing even faster than population rates. It takes several pounds of grain protein to make a pound of beef protein. Thus, the combination of rapidly rising population *and* rapidly rising per capita meat consumption has put significant strains on the global food system. While the diversion of food to ethanol production has exacerbated this problem, ethanol is not, in itself, the problem. Stated another way, we could terminate ethanol production tomorrow and a few years from now, due to the growth in demand from other sources (e.g., the equivalent of another North American population to feed seven years from now), global grain consumption would be just as high as it is now.

12.3 Main Report: False causes: SRM removal

When prices are low and margins slim (or negative), every additional cost hurts. And prices and margins today certainly are low—matched only by those of the depths of the Great Depression. Thus, costs such as SRM removal[†] cut painfully into farmers' net returns.

But this is not the same as saying that SRM removal costs are a significant cause of the current crisis. The difference between prices in the 1942-to-1989 period and the recent-year average is about \$85 per hundred-weight. SRM removal costs are \$6 to \$12 per animal, according to George Morris Centre's Kevin Grier.⁵⁶ The Canadian Meat Council estimates SRM removal costs may be as high as \$15 per animal.⁵⁷ This last amount works out to approximately \$1.20 per hundred-weight—less than 2% of the missing \$85 per hundred-weight. Another commentator estimates “an additional cost of \$30 to \$35 per head for cull cow slaughterhouses.”⁵⁸ Even that \$35 amount, higher than the others because older animals are subject to more stringent SRM-removal protocols, works out to only about \$3 per hundred-weight.

And others put the cost lower. Informa Economics quotes CFIA data indicating a total cost of SRM removal, segregation, and disposal in Canada at \$26.5 million per year⁵⁹—about \$7.35 per head, or about 56¢ per hundred-weight, live-weight, a small fraction of the missing \$85.

* If everyone ate meat at the same rate as North Americans currently do, global meat consumption would triple.

† Specified Risk Material (SRM) refers to the skull, brain, trigeminal ganglia [nerves attached to the brain], eyes, tonsils, spinal cord, dorsal root ganglia [nerves attached to the spinal cord], and distal ileum [portion of the small intestine] of cattle. Some believe that the prions that allegedly cause/transmit BSE are found only in these parts of cattle. Thus, to control BSE, these parts are removed and specially disposed.

Whatever the exact costs of SRM removal, these costs are small relative to the missing \$85 per hundred-weight. Moreover, those who still wish to claim that such costs are significant may want to consider that costs such as SRM removal, our traceability system, etc., are at least partly a consequence of our export dependence. Because Canada is dependent on maintaining the confidence of foreign customers and regulators, we are often forced to “overcomply.” The US has found cattle with BSE. Despite this, their SRM removal and traceability programs are less elaborate and less costly than Canadian programs. The US cattle sector does not live in fear of closed borders.

12.4 Main Report: False causes: BSE

No one denies the devastating impact of BSE; certainly, the graphs throughout this report show the drop in prices that occurred when a case of BSE was discovered here. And prices have yet to fully recover.

But even before BSE hit, prices were well below historical norms. Just before the Canadian case of BSE was discovered—May 2003—fat cattle were selling for \$110 to \$120 per hundred-weight—lower than any price paid between 1942 and 1989.

The long-term price graphs show that post-BSE fed cattle prices have averaged \$25 per hundred-weight lower than those during the pre-BSE period (Alberta fed steers, adjusted for inflation, May 2003 to August 2008 average compared to June 1989 to June 2003 average).^{*} That \$25 per hundred-weight reduction has hurt farmers and independent feeders, but it’s just 29% of the \$85 per hundred-weight that has been missing from farmers’ cattle cheques. BSE may have been one of the straws that broke the camel’s back, but there was a very big load on that camel before BSE came along.

^{*} This \$25 reduction is not all attributable to BSE. As noted above, a rising dollar, increased feed costs, increased corporate concentration (e.g., Cargill takeover of Better Beef), etc., have each had some effect on prices. Thus, the BSE effect is only a portion of that \$25 per hundred-weight reduction.

12.5 Main Report: False causes: Capacity utilization

When explaining dismal cattle prices, analysts and industry reps often point to low capacity utilization rates in major packing plants. They tell us that, unable to procure sufficient cattle, packing plants are running partly empty. Thus, packers' fixed and other costs are amortized over fewer cattle, plant efficiency is lower, and their cost-per-animal is higher. All this is partly true, but there's much more to the story.

First, one needs to acknowledge that the major packers—Cargill, Tyson, and XL—expanded their packing plants^{60, 61} with the help of taxpayer money. All three received payments under various BSE recovery plans—a total of at least \$45 million.⁶² And they received that money despite the fact that they didn't require it, despite the fact that their margins and profits *increased* as a result of BSE. (According to the Alberta Auditor General, packers' margins increased 281% as a result of BSE—from \$46.30 per slaughtered head in the 12 months prior to BSE to \$176.45 per head in the 6 months after the Canada-US border closed.⁶³)

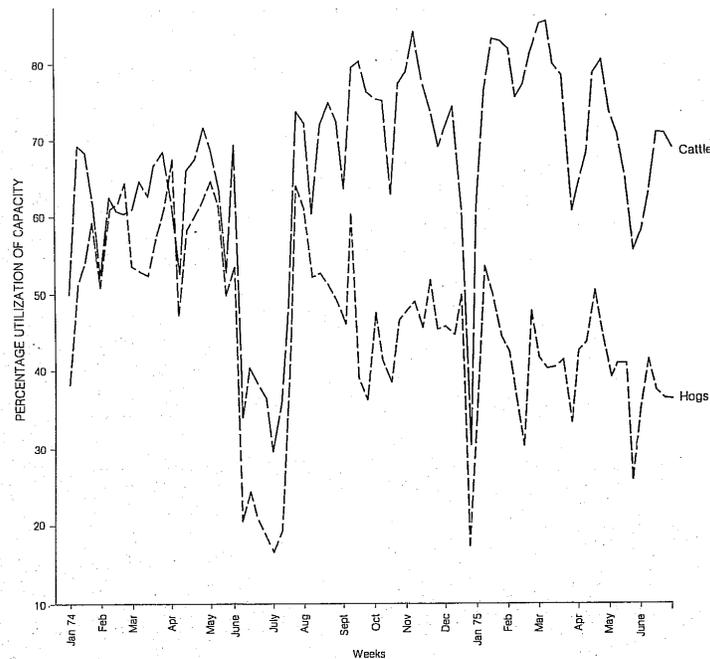
Second, the dominant packers chose to expand at a time when many farmers, farm organizations, and governments were working on plans to establish farmer-owned plants. The suspicious among us might wonder if the big packers expanded capacity to pre-empt competition, or to give themselves the ability to starve out start-up competitors by buying up supplies of finished cattle.

Others, less suspicious, will point out that government and cattle organizations all decried the lack of sufficient packing capacity in Canada and urged packers to expand to create sufficient capacity on this side of the border to handle all Canadian production should the border remain closed, or close again. Stephen Harper, the Leader of the Opposition at the time, urged: "Slaughter capacity must be increased."⁶⁴

Whatever the reason for significant expansions at Cargill, Tyson, and XL plants, and regardless of who paid for those expansions, the fact is that these packers *chose* to expand capacity. They expanded their way to underutilization. It is now odd that, having done so, they cite excess capacity as a reason for low cattle prices.

Third, current capacity utilization rates are not out of line with historical rates. Before their expansions, major packers were running at 90% to 95% capacity⁶⁵ (mainly as a result of a closed US border for live cattle). Now they are running at 70% to 75%⁶⁶ (partly as a result of feeder-cattle exports, but primarily as a result of expansion). This current 70% to 75% capacity utilization is about equal to rates in the past. For instance, Figure 34, below, shows capacity utilization rates in the mid-1970s in Alberta beef packing plants. Over the year-and-a-half period shown in the graph, utilization rates were often in the 60% to 80% range, with some months below 40%. Other provinces, such as Ontario, had nearly identical rates. If similar data were found for the balance of the 1970s and 1980s, those numbers would probably reveal that long-term average capacity utilization rates would not be much above 75%.

**Figure 34. Slaughter capacity utilization, cattle and hogs, Alberta
1974 – 1975**



Source: Reproduced from Food Prices Review Board, *Meat Processing Capacity*, August 1975.

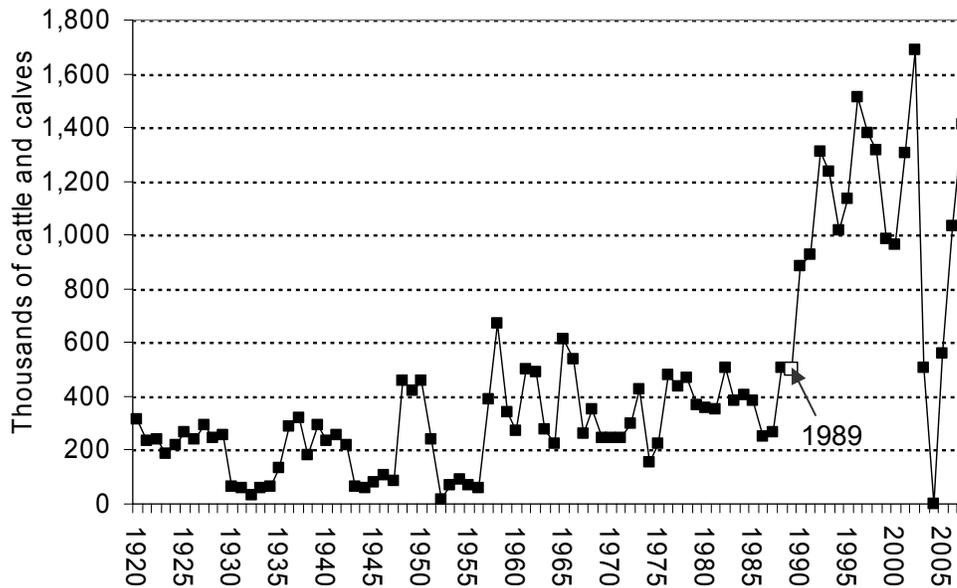
Recall that in the mid-1970s, with capacity utilization rates about the same as those of today, packing plants were paying farmers \$160 to \$235 per hundred-weight (adjusted for inflation)—two to three times what they’re now paying. It is unlikely that increasing capacity utilization today could erase that very large price gap.

And here is another bit of information regarding capacity utilization: “Western Canada’s beef slaughter was less than 60% capacity in 1982. . . .”⁶⁷ Farmers’ cattle prices were twice as high then.

Fourth, Canadian farmers *have* increased production, but packers have expanded faster. Total Canadian cattle and calves in January, 1988, numbered 10.8 million head.⁶⁸ In 2003, just before a case of BSE was discovered, that cattle and calf inventory number stood at 13.5 million—up 25% in 15 years. Numbers remain high today. On top of this, steer carcass weights are up more than 21% since ’88,⁶⁹ adding still more to total Canadian beef production.⁷⁰

Fifth, if we are short of cattle in Canadian plants, a big part of that shortage is caused by the fact that we’re exporting too many live cattle. And it’s important to acknowledge that the increase in live cattle export has occurred since 1989, and that the increase is linked to the other factors outlined above, including the US takeover of the Canadian packing sector, continental integration, and an ill-conceived export push.

**Figure 35. Exports of live Canadian cattle and calves
1920 – 2007**



Source: Statistics Canada, CANSIM database.

Figure 35, above, shows Canadian exports of live cattle and calves from 1920 to 2007. 1989 is highlighted. Before '89, Canadian exports of live cattle and calves were steady, below 600,000 head per year. After '89, exports rose sharply, doubling in three years and hitting 1.7 million in 2002, just before the case of BSE was discovered. In 2007, Canada exported 1.4 million cattle live. That number, if kept in this country, is enough to jam every Canadian plant up to full capacity, even taking into account the significant plant expansions post-2003.

Finally, it is unclear how best to understand the excess-capacity argument. Do those who put this argument forward mean to imply that Canadian farmers would be better off and receive higher prices if they produced 30% more cattle and tried to keep our packing plants chock full? Would prices go up if farmers produced more? Unlikely. The “price signals” are indicating that farmers should produce fewer, not more, cattle. The capacity utilization problem, if it is legitimate, seems difficult to solve. This report suggests that the capacity utilization argument is a distraction.

12.6 Main Report: False causes: Government regulations

If critical analysis of corporate packers and retailers is in short supply, criticism of government is often in surplus. In fact, blaming government is the default position for many in the cattle sector. And, often, our governments do have much to answer for. But in the case of the cattle price collapse, pinning the blame on government policies or regulations is just not credible.

A full assessment of the role of government regulations and policies in harming or helping the cattle sector is beyond this report’s scope. As a substitute, here are the key findings regarding regulatory and policy impacts from Informa Economics’ 2006 *Task 5* report. In that document, Informa compared regulations and costs in Canada to those in the US. With regard to environmental regulations in general, Informa found:

Regulatory requirements as it relates to the environment are deemed to be sufficiently equal in both countries and if anything, the burden on the Canadian industry is somewhat less than in many (but not all) areas of the US.⁷¹

With regard to regulations governing the feedlot sector, Informa found:

Analysis would suggest that for large cattle feeding operations, there are equal requirements and cost burdens for an environmental compliance perspective in Canada and the US. Environmental regulations have been brought into play that have increased production costs at the feedlot level, but there is sufficient harmonization of the requirements to preclude a determination of advantage or disadvantage for Canada.⁷²

And with regard to packers, Informa found:

Investigations showed that the regulatory requirements at the packing/processing level in each country, while different in some of the specifics, really are pretty well harmonized between the two countries.⁷³

The Informa report did identify one aspect of government regulatory policy that put Canada at a disadvantage: veterinary pharmaceutical approvals. The report said:

Regulatory requirements as it relates to animal health and pharmaceutical use is somewhat more of an issue in Canada than in the US as the approval process for various pharmaceuticals is longer and more onerous than is the case in the US.⁷⁴

But the report then went on to quantify the magnitude of the harm to Canadian farmers that results from lagging veterinary drug approvals, concluding that: “This difference can often aggregate to several dollars per animal.”⁷⁵ Several dollars per animal might be as much as one or two dollars per hundred-weight, far less than the missing \$85 dollars per hundred-weight that is the difference between the 1942-to-’89 average and recent values.

If government policies and regulations cost the cattle sector two or three dollars per hundred-weight, then to this cost must be applied the *positive* contributions that governments and taxpayers provide. These include taxpayer-funded farm support programs, BSE recovery programs, public grazing fees below private rates,⁷⁶ the end of the Crow Rate/Crow Benefit (widely touted as good for the livestock sector⁷⁷), incentives to packers, subsidized inspection services, public research, and dams and irrigation infrastructure subsidies, to give a partial list. In light of the billions of dollars that governments and taxpayers have poured into the livestock sector in the past decade (and the billions more that governments have poured into the feedgrains sector), it’s impossible to see how governments can be net contributors to the cattle price crisis. Often, farmers’ and cattle organizations’ quickness to blame government is merely a reflection of their fear of criticizing packers and other powerful players within the system.

12.7 Main Report: False causes: Consumers aren't paying enough

Perhaps farmers are getting less because packers are getting less because retailers are getting less because consumers are paying less. Maybe the problem is our “cheap food policy.” Maybe Canadian families in Victoria or Charlottetown made off with the missing \$85 per hundred-weight in the form of half-price ground beef and roasts.

Not so. Consumers may be paying a bit less than they did decades ago (comprehensive long-term data is lacking), but the magnitude of any reduction in retail beef prices is far too small to account for more than a fraction of the cattle price decline. Statistics Canada provides retail food price data for the period 1975 onward.⁷⁸ Adjusted for inflation, the Canada-average price of one pound of ground beef has remained relatively stable over the 33 years since 1975. The inflation-adjusted price in 1975, '76, and '77 was \$2 to \$3 per pound; it has been in that same range over the past two decades. There was a brief spike in prices between 1978 and 1982, but overall, the inflation-adjusted price of Canadian ground beef has not changed significantly during the period for which we have data, though it appears to be down slightly.

Steak prices in Canada follow a similar pattern. Prices over the past five years have been in the \$7.00 to \$8.00 per pound range (Sirloin steak, Canada average, adjusted for inflation); these prices fall in about the middle of the longer-term range of \$6.00 to \$9.00 that held from 1975 to present. Again, the exception to this relative stability was a spike in steak prices in the 1978 to 1981 period. Excluding that spike, steak prices have changed little in the past three decades.

Canadian consumers today are paying only a bit less for beef than they were 20 or 30 years ago. Farmers are getting half as much. There's a lot of money missing in the middle.

Data from the US extends back further in time and it tells a similar story to Canadian data. US Bureau of Labour Statistics ground beef price index data extend back to 1943⁷⁹ (data for steaks and roasts do not extend back beyond 1997). Adjusted for inflation, the US ground beef price index has been relatively stable over the past 65 years. Index values were just above 200 in the early 1940s and have been just below 200 in recent years. With the exception of three short price spikes (1947-'52, 1972-'74, and 1979-'80), inflation-adjusted ground beef price index values have remained between 150 and 250. Currently, the price index is near the middle of that 150-to-250 range—just below 200. It is true, however, that ground beef price index values were lower in the 1985-to-2003 period than in previous years, but not low enough to explain more than a minor part of the cattle price decline. US Ground beef prices averaged 30% higher in the 1943 to 1989 period than in the most recent five years; Canadian cattle prices averaged 100% higher in the 1943 to 1989 period than in recent years. If retail beef prices were determining cattle prices, farmers would be receiving at least 70% more than they are today.

12.8 Main Report: False causes: Workers are taking too much

The two largest costs in a beef packing plant are cattle and wages. Maybe packers can't pay as much for cattle because packers are paying too much to workers.

Because the packing sector has been so thoroughly restructured, caution is necessary when comparing wages across two- or three-decade spans; companies and unions have changed the

way they classify workers and report wages. Nevertheless, some enlightening, if rough, comparisons are possible.

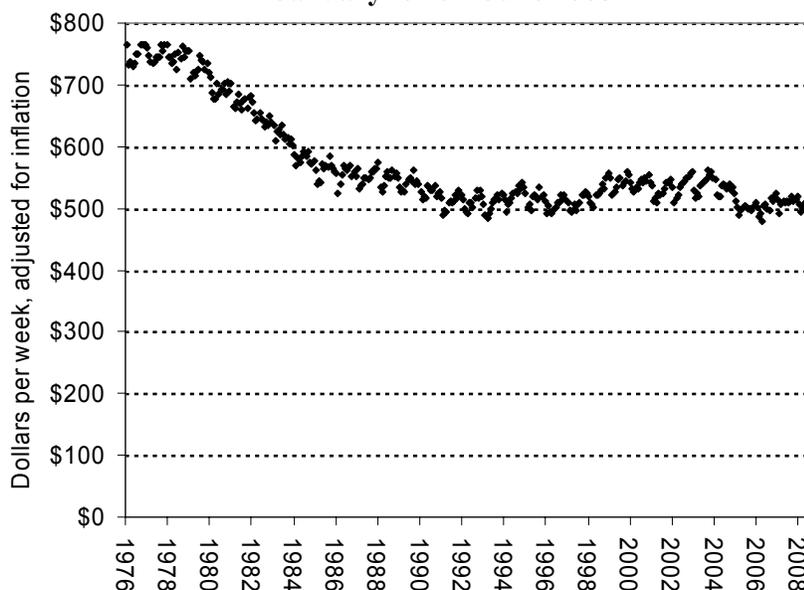
In 1980, unions achieved an agreement with beef packers to apply a single “base rate” wage to every beef slaughter plant in Canada, regardless of location.⁸⁰ Before that year, base rates varied from plant to plant and province to province.

The 1980s base rate was the minimum per-hour wage paid. Workers in higher skill ranges earned more, but no one in the plant earned less. The base rate during the five-year period 1980 to 1984, inclusive, was approximately \$10 to \$13 per hour.⁸¹ Adjusted for inflation, these base rate figures work out to about \$23 per hour, in today’s dollars. Again, no one in the plant—not even the new janitor on his or her first day—earned less, though skilled workers earned more.

This \$23 per hour inflation-adjusted rate from the 1980s compares to a current “base” wage of between \$16.95 per hour⁸² and \$17.35 per hour,⁸³ after several months of employment.⁸⁴ A few additional points are necessary in order to properly compare current wages to those in the 1980s. Currently, *starting wages* are several dollars per hour lower than the base rate, with starting wages as low as \$13.00 per hour—just over half of the comparable starting wage during the 1980-to-1984 period. On the other hand, highly skilled workers today earn skill premiums of several dollars above that \$16.95 to \$17.35. The highest rates of pay for skilled workers today, however, are not much above the \$23 per hour (inflation-adjusted) starting wage for unskilled workers that packers were paying in the first half of the 1980s.

US statistics also show significant declines in packing plant wages in that country. Figure 36, below, graphs weekly pay in US slaughter plants (cattle and hogs), in US dollars per week, adjusted for inflation.

**Figure 36. Weekly pay for US animal slaughtering and processing workers
January 1976 – June 2008**



Source: United States Bureau of Labour Statistics, Series CEU3231160030, NAICS Code 3116. Obtained and interpreted with the assistance of Dr. Robert Taylor, Auburn University.

Bureau of Labour Statistics numbers indicate a 33% reduction in US packing plant wages, adjusted for inflation—from approximately \$750 per week in the 1970s to about \$500 since the early '90s. It is likely that Canadian plants replicated those wage cuts, though with a delay of several years.

A third source of data—Statistics Canada—also shows wage declines in meat packing plants. As noted above, precise computations are challenging, but Statistics Canada numbers⁸⁵ covering a time period similar to the one used in Figure 36 point toward a drop in Canadian inflation-adjusted packing plant wages of roughly 22%. Moreover, evidence such as collective bargaining agreements, cited above, indicates that the actual magnitude of the wage cuts is much larger.

Overall, all data sources point to the same conclusion: packers today are paying workers significantly less than packers paid in the 1970s or 1980s. The \$1,100 per fed steer and \$420 per calf missing from farmers' cheques is not ending up in workers' wallets.

The market power of packers is allowing them both to push down prices to farmers *and* to push down wages to workers, undermining the public good and dramatically reducing the social and economic benefits of the packing sector to Canada.

What if they worked for free?

Hired labour accounts for 5% to 6% of production expenses in a beef packing plant; cattle represent up to 90% of total expenses.⁸⁶ If workers worked for free, packers might be able to pay an additional 6% for cattle—about \$5 per hundred-weight, far less than the missing \$85.

12.9 Main Report: False causes: Conclusion

Sacred cows make the best hamburger.—Mark Twain

Much of the preceding will be controversial. By deprecating oft-cited causes of the cattle crisis such as currency values, grain prices, or capacity utilization, this report will ruffle feathers and step on toes. Many good people with sterling reputations have attributed the current crisis to just such causes.

But controversy is needed; it's healthy. The path to effective solutions lies through the rocky terrain of competing analyses. The NFU welcomes this controversy, looks forward to critiques, and anticipates spirited rebuttals. A tumultuous debate on this topic may be the only way to actually advance toward fundamental change in the cattle sector. The NFU encourages that debate.

The NFU does not believe, however, that any of the causes critiqued in the preceding section will pass the following test: Do they adequately explain the post-1989 cattle price collapse? We believe that any full analysis will show that factors such as the dollar, grain prices, ethanol, and SRM removal will prove to be far less important in determining current cattle prices than will factors such as retailer and packer power and concentration, continental market integration, export overdependence, and captive supply.

13.0 Main Report: Actual causes

During the nearly five decades between the opening years of the Second World War and 1989, not once did Ontario fed cattle prices fall below \$130 per hundred-weight, live-weight. Not once did Alberta fed cattle prices fall below \$120. Then, in '89, prices did fall below those levels, and they've stayed below those levels for most of the subsequent 20 years. Prices over the past year have averaged *half* of average prices during the 1942-to-'89 period. This section looks, in depth, at the *real* causes of the price and profitability crisis now gripping Canadian cattle producers.

13.1 Main Report: Actual causes: Cargill and packer concentration

Economics textbooks all concur: levels of profit tend to have an inverse relation to levels of competition. More competition means less profit; less competition means more profit. Consider a monopoly—a single seller of food or telephone services or steel. Because that monopoly faces very low (zero) competition, because it's "the only game in town," it will almost certainly charge higher prices and reap high profits. Consider the opposite, a sector where tens-of-thousands of small firms compete. Prices, disciplined and squeezed by robust competition, will tend to be lower. Similarly, profit levels will tend to be low, or even negative. (Some would say that today's farmers operate in one of those high-competition/low-profit sectors.) The relation is clear: as competition levels decrease, corporations' capacities to capture profits increase. This is a foundational doctrine of economics. It is not controversial.

Over the past two to three decades, competition levels among meat packers and among food retailers have decreased. Thus, it is likely that their power to capture profits has gone *up*. And if profits are up—if packers, retailers, or both are taking a larger slice of the beef-sector pie—and if farmers are thus left with a smaller share, the causes of our cattle price crisis become clearer.

Let's start with packers. The Canadian packing sector was reorganized in the 1980s, with the restructuring reaching maximum velocity in 1989 when Cargill opened its large new plant at High River, Alberta. Today, Canadian beef packing plants are far bigger than they were in the 1960s, '70s, or '80s. The companies that own those plants are bigger, and are global. The number of plants is far lower today. More important, the number of plants located in a single region, competing for the cattle in that area, is far lower. Immediately, we should be curious as to whether these significant decreases in competition among packers, and increases in their market power, might increase their capacity to profit, possibly at the expense of family-farm cattle producers.

Given the small number of beef packing plants in Canada today, and the tiny number that operate in any one city, it's hard to recall just how numerous packing plants once were.

In 1970, Alberta had 13 medium-to-large federally inspected beef packing plants (300 head to 3,000+ head per week).⁸⁷ In 1974, it had 17.⁸⁸ In 1978, it had 17.⁸⁹ And in 1980, it had 12 (400 head to 3,850 per week).⁹⁰ Today, Alberta has, generously, 5: Tyson, Cargill, XL, Sunterra, and Canadian Premium Meats (600 head to 28,200 head per week).⁹¹ And, in reality, the largest two or three set the market price.*

* Virtually all references to packing plants in this report refer to federally inspected plants. The only exception is in the solutions section, where this report talks about the need for small, local abattoirs.

In 1970, Ontario had 15 medium-to-large federally inspected beef packing plants (300 head to 3,000+ head per week).⁹² In 1974 it had 17. Information is lacking for the interim period, but today Ontario has just 3 plants: the relatively large Cargill/Better Beef plant, and smaller plants operated by Ryding-Regency Meat Packers Ltd. and St. Helen's Meat Packers Ltd.

Saskatchewan had 3 federally inspected packing plants in 1970, 4 in '74, and it has only 1 today—XL Foods, in Moose Jaw.

Manitoba had 6 plants in 1970 and 7 in 1974. In 1977, Manitoba had more than 5 plants,⁹³ including the following operated by the big four packers: St. Boniface/Winnipeg (Canada Packers), St. Boniface (Swift Canadian), St. Boniface (Burns), St. Boniface⁹⁴ (Burns) and Brandon (Burns). Today, Manitoba has just one federally inspected plant: the very small Winkler Meats. (Though Winkler's listed capacity is 300 head of cattle per week,⁹⁵ due to many economic factors, it is currently killing only a few dozen head per week.⁹⁶)

Not only did most provinces in the 1970s and '80s each have numerous packing plants, many cities or areas also each had several. In 1978, an Edmonton-area farmer with slaughter cattle to sell had *five* federally inspected packers to choose from in Edmonton alone (Capital, Burns, Canada Packers, Gainers, and Swift Canadian).⁹⁷ Calgary also had five. Located between Calgary and Edmonton, Red Deer had two. To the south, Lethbridge had three. Similarly, there existed multiple plants in other major meat-packing cities: Montreal, Winnipeg, Toronto, and elsewhere.

“Competitiveness” vs. “Competition”

Language is important. If we fail to use words carefully, if we fail to make critical distinctions in meaning, we confuse our foundational assumptions; we muddle our map and risk setting off down the wrong path.

CEOs and public servants talk of “competitiveness.” Standard definitions resemble this one from Agriculture Canada: “the sustained ability to profitably gain and maintain market share.”⁹⁸ Notice the mention of gaining market share. This is a key part of the standard notion of competitiveness; that growth is a key indicator of competitive success. Imagine a small firm, one with a five percent market share; if that firm grows rapidly and gains a fifteen or twenty percent market share, all will agree the firm is very competitive. And as it gets even bigger, it can take on the biggest firms in the global market. Its growth simultaneously demonstrates, and adds to, its competitiveness.

But as a sector's firms become larger and gain market share, they also become fewer. The trend in every food and agricultural sector is toward larger, but fewer, firms. Thus, “competitiveness” has come to signify something opposite to “competition.” If XL Foods completes its purchase of Tyson's Brooks plant, XL will become Canada's largest packer—clearly demonstrating that XL is a competitive company. Similarly, all will agree Cargill is competitive. But the end result of all this competitive growth will be the two-firm control of the Canadian packing sector. Such a duopoly means very low levels of competition.

People use the word “competitive” in misleading and contradictory ways. Many would say that an auction barn with 50 aggressive bidders represents a market that is very competitive. And those same people would probably say that Microsoft Corporation, with a virtual monopoly on small computer software, is very competitive. Careful thinkers will note the odd opposition in those two senses of the word “competitive.” The danger, increasingly common among policy-makers and consultants, is to fail to recognize the perverse relation between the words “competitiveness” and “competition” and to use these words as if they denote the same, rather than opposite, phenomena.

Though small and inefficient by today's standards, these numerous plants were also forced to be relatively aggressive when it came to bidding on farmers' cattle. Partly as a result of that competition pressure, these plants managed to pay farmers *double* what today's hyper-efficient mega-plants are managing to pay. On the face of it, there is a disconnect: large, efficient plants are paying far less. Why is this happening? The answer is simple: Large size and economies of scale may bring efficiency, but such factors do not predict *who will capture the profits* created by that efficiency. It may be that packers simply put the profits from the efficiency gains into their own pockets—their increasing size and declining level of competition would certainly allow them to do that. Or maybe retailers somehow captured the efficiency gains made possible by packers' larger plants. Perhaps the packers and the retailers have shared those gains. What *is* clear is that farmers are not receiving even a portion of those gains. Quite the opposite: farmers' prices have gone *down* as packer efficiency has gone up.

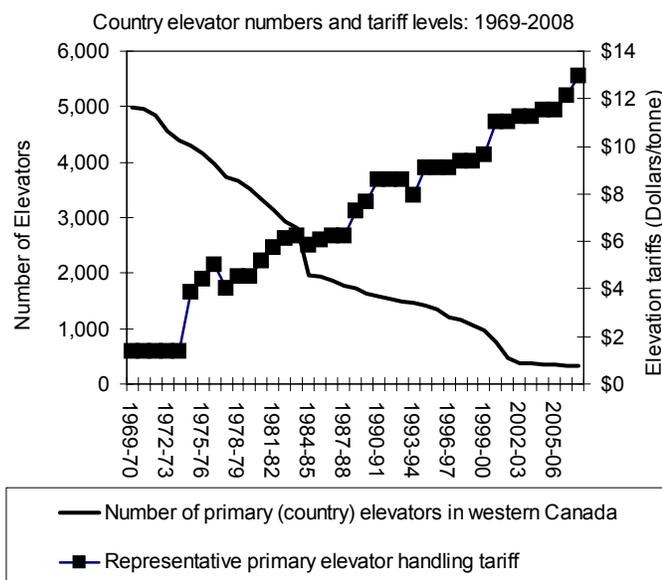
It is common sense to expect that fewer buyers will lead to lower prices. More than 20 years ago, cattle producers were already worried about the declining number of plants, the declining bidding intensity, and the clear potential for declining prices. A 1981 report relates: "Cattle feeders are concerned about the decrease in the number of plants killing cattle. . . . Cattlemen feel that every plant is a bidder, and believe that the degree of competition is related directly to the number of bidders, who have decreased of late."⁹⁹

A final word on the reduction in the number of packing plants. As the

Efficiency & the elusive promise of farmer prosperity

Before the mid-'80s, Canada had many medium-sized packing plants. Then packers began consolidating. The rhetoric was "bigger is better"—economies of scale and efficiencies would reduce costs and increase prices. Farmers would prosper. But they haven't.

This failure of consolidation and efficiency to translate into farmer prosperity is not unique; this saga has been repeated often, across the country and for many sectors. Here is one example: In the early 1970s, western Canada had 5,000 country grain elevators. As recently as 1984, there were still 2,800. Today there are just over 300. This graph shows the decline.



This massive elevator consolidation—a 93% cut—was accompanied by a grain company and railway choir touting cost-savings and benefits. They were wrong. As the graph shows, elevator tariffs doubled and redoubled. Since 1984, tariffs have increased faster than the rate of inflation.

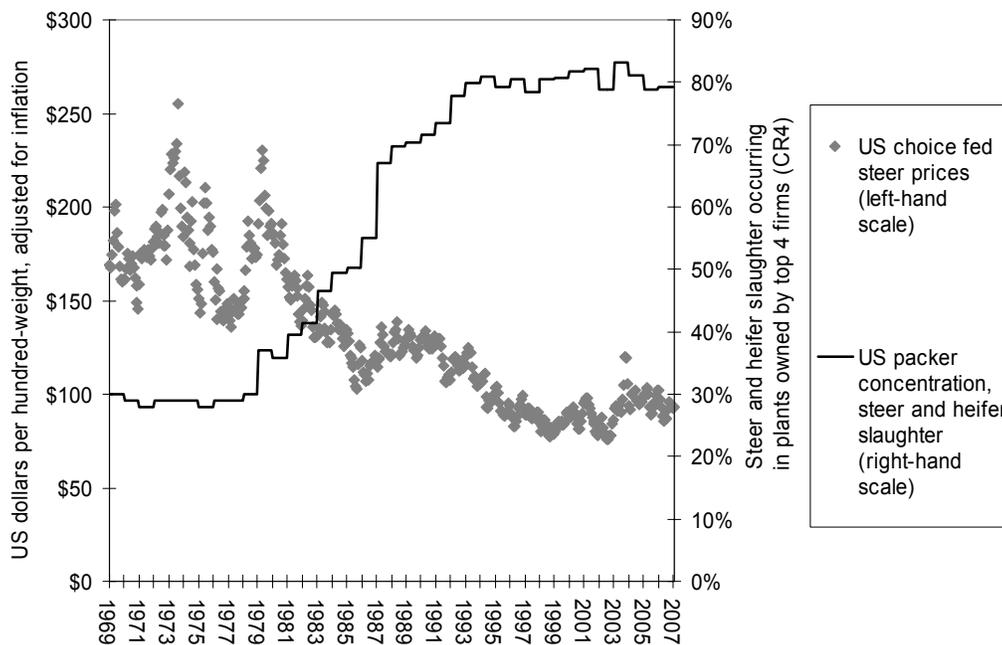
Moreover, not only did grain companies neglect to pass on the predicted cost savings, companies forced farmers to shoulder additional costs: longer truck hauls, more on-farm storage, higher taxes to pay for road damage. Communities have had to pay too: fewer elevators means fewer jobs. The loss of the local elevator often sets in motion a chain reaction of losses: businesses, services, schools, hospitals, young people, towns.

Finally, it is important to acknowledge that consolidation does bring savings: fewer workers, fewer facilities, higher throughput. But in the cases of both the elevators and packing plants, the cost savings have been captured by the companies, or by someone else in the system, not by farmers.

number of plants has declined, as most Canadian cities and regions have seen their plants disappear, and as the packing sector has concentrated itself geographically into a small portion of southern Alberta, the packing sector has dramatically reduced its social and economic benefits to citizens and the nation. Where it was once a broadly based engine of job creation, the packing sector is today a much smaller player in the economies of most cities and regions.

There are fewer plants, and there are also fewer owners. In the 1980s and '90s, ownership of the beef packing sector became more and more concentrated. Fewer, bigger companies took ownership of more and more of the plants and capacity. This occurred on both sides of the border. Figure 37, below, illustrates the US situation. The thin line on the graph shows the corporate concentration of US beef packers; specifically, it shows the market share percentage of the four largest firms (the CR4) of US fed cattle slaughter (steers and heifers). The grey diamond-shaped dots on the graph show representative US cattle prices (Omaha, Nebraska slaughter steers). The prices are in US dollars, adjusted for inflation, and are for Choice grade steers, live-weight. The time period is 1969 to 2006 (similar packer concentration statistics are not available prior to 1969).

Figure 37. United States fed (slaughter) steers and US packer concentration 1969 – 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 patterns evident in the graph are arresting: concentration levels and price levels trace a near-perfect inverse correlation—as concentration increases, prices decrease. Another way of saying this is: *as competition levels decrease, prices decrease*. Note even this: when concentration levels stabilized in the mid-1990s, so did price levels.

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 8 years later, in 1987, the four largest packers had more than doubled their share of fed-cattle slaughter, to 67%. The takeovers 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 US packers were consolidating ownership, US live 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 \$174.71 per hundred-weight, live-weight, adjusted for inflation. But in the period of relatively high packer concentration (CR4 >78%, the period from 1993 to 2006), farmers received an average price of just \$87.37 per hundred-weight—*half* the price they received when concentration was low.

Let's turn now to Canada. Our packing sector has followed the same pattern of consolidation, if a bit delayed. Also, Canadian consolidation is often explicitly linked to the arrival of Cargill. Here's an example:

[The] worldwide trend to meat packing concentration hit Canada belatedly in the late 1980s. This occurred after the entry of Cargill with a large new plant in Alberta in 1989.¹⁰⁰

Further,

This sudden encroachment into Canada—the first ever by a major U.S. meat packer—added substantially to existing excess capacity in the Canadian industry; it immediately caused major disruptions and subsequent closures at other, older plants throughout Canada.¹⁰¹

Others have recognized that corporate concentration in this country could give packers the power to push down prices. Here are two observations from a 2006 Informa Economics study:

The highly concentrated structure of the Alberta cattle slaughter and processing industry would suggest that there exist the necessary and sufficient conditions for firms operating in that space to exert monopsony or monopoly powers.¹⁰²

And:

In Alberta, the concentration level of packers engaged in the slaughter and processing of fed cattle is very high; estimated at 95 percent or more for the three largest firms with two firms accounting for an estimated 85 percent of the kill. A concentration level of this magnitude is reason for concern and particularly as it relates to the sourcing/procurement of raw materials (in this case, feedlot cattle) as there is limited concentration at the feedlot level of the industry and hence, there are many sellers of fed cattle who are transacting animals with the small number of cattle buyers.

Lack of a large number of buyers does not guarantee non-competitive behaviour but it certainly creates an environment where such behaviour could occur *if the firms were so inclined* [emphasis added].¹⁰³

Even government is willing to recognize the “elephant in the room” of packer concentration. In a 2004 report looking at the BSE crisis and packer conduct, the House of Commons Standing Committee on Agriculture and Agri-Food offered the following two characterizations:

[T]he lack of responsiveness of wholesale and retail prices to farm-gate prices suggests that the recent consolidation and rationalization within the packing and processing segment of the industry may have resulted in too much concentration of ownership.¹⁰⁴

[T]he packing industry in western Canada is best characterized as a triopoly. . . Cargill Foods, Lakeside Packers Ltd. and XL Beef have a weekly slaughter capacity of 51,500 head of a total western Canada weekly slaughter capacity of 54,200 head. These three companies, therefore, control 95% of western Canada's beef packing industry. They are also vertically integrated into feedlot operations, with packer-owned cattle procurement averaging 16% of Alberta cattle marketings in the past six years.¹⁰⁵

As noted in the Executive Summary: the percentage of the slaughter that occurred in packing plants owned by Canada's largest four packing corporations rose from 35% in 1990¹⁰⁶ to 89% in 2007.¹⁰⁷ And as concentration levels rose, prices fell. Current prices are half of their pre-'89 levels, and packer concentration today is 2½ times higher than in '89.

There is another point to be made in terms of corporate concentration and the attendant decrease in competition and prices: not only is it likely that increasing concentration in this country has pushed down farmers' prices here, it is equally likely that increasing concentration levels in the US have also pushed down prices here, because Canadian and US markets are closely linked, especially since 1989. Thus, a careful analysis of the effects of packer concentration on farmers' prices would have to look at ownership changes in both Canada and the US.

The next phase of corporate concentration

We are in the first year of a new phase of corporate concentration and market reorganization.

Phase 1 of recent-era concentration and reorganization occurred in the US beginning around 1980. The big four packers tripled their market share, with Cargill and Tyson coming out on top. Phase 1b, we'll call it, occurred in Canada beginning a few years after 1980, when packers here consolidated among themselves. In 1988, ownership of Canadian plants was separate from US ownership.

Phase 2 occurred in Canada beginning in 1989 when US packers such as Cargill and IBP/Tyson came north and began a takeover, creating a North American sector.

Phase 3 is now underway. In mid-2007, Brazilian-based JBS S.A.—“Latin America’s largest beef processor”—came north and bought US-based Swift & Co. With that deal, JBS vaulted itself to the #3 spot among US/Canadian packers and the #1 spot among Australian packers, maintained its status as the #1 packer in Argentina and Brazil, and made itself “the largest beef processor in the world.”¹⁰⁸

In March 2008, JBS announced plans to buy US-based National Beef Packing, the beef unit of US-based Smithfield Foods, and Australia’s Tasman Group.¹⁰⁹ The deal included acquisition of Smithfield’s Five Rivers feeding operation—10 cattle feedlots in Colorado, Idaho, Kansas, Texas, and Oklahoma, with an annual output of 2 million head. The Smithfield sale, including Five Rivers, is now being completed. The US Department of Justice (DOJ), however, is challenging JBS’s purchase of National Beef in court.¹¹⁰

JBS’s takeover of Smithfield (US #5 packer) on top of its existing ownership of Swift (US #3) moves JBS close to a tie with Cargill for the US #2 spot (Cargill, 27,717 head per day; JBS/Swift/Smithfield, 24,111).¹¹¹ If JBS wins in court and the National sale is approved, JBS will take over #1 spot. Even without National, JBS’s takeover of Smithfield raises the US beef packing CR4 from 79.1% into the mid-80% range. Recall from Figure 37: increases in packer concentration trigger decreases in cattle prices.

The JBS takeover of Swift, Smithfield, and Tasman has made the corporation:

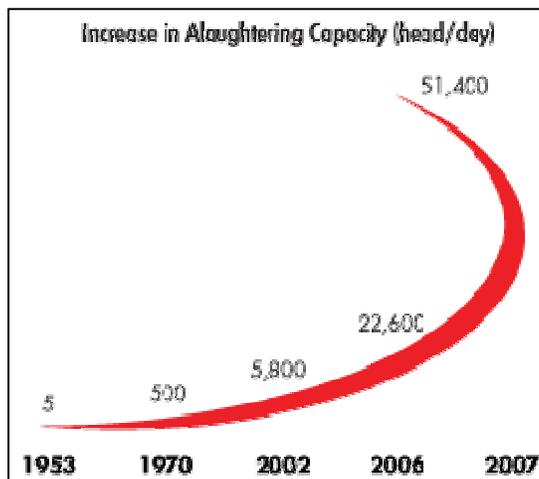
- The largest beef packer in the world;
- A top-3 packer in the US;
- The owner of the largest cattle feedlot complex in the US;
- The largest beef packer in Australia (the #1 or #2 beef supplier to the US, depending on the year);
- The largest beef packer in Argentina and Brazil (both top-6 beef suppliers to the US); and
- The third-largest pork producer in the US.

This graph is reproduced from JBS’s website. It shows the ten-fold growth of the company’s beef slaughter capacity over the past decade. It doesn’t include recent acquisitions; with the Tasman and Smithfield purchases, JBS’s capacity rises to 57,600 head *per day*.

As phase 3 consolidation continues, JBS and other would-be global processing giants will probably acquire Canadian packing plants or companies.

The logic is compelling. First, packers consolidated Canadian and US markets separately within national borders. Then, trade agreements spurred packers to consolidate on a North American basis. Now, packers are consolidating globally. We went from 3 or 4 dominant Canadian firms to 3 or 4 North American firms. Now, we’ll have 3 or 4 global firms. One or two may be North American; none will be Canadian. As with previous spasms of concentration, this one will yield packers that are bigger, fewer, more distant, more powerful, and less governable.

This global takeover and increase in concentration need not occur; but it will occur unless government polices here change to maintain Canadian control over our food system. Canadian consumers and cow-calf producers alike will suffer if our beef and cattle systems become second-string suppliers for a global meat packing empire organized and run from São Paulo.



13.1.1 Main Report: Actual causes: Corporate concentration: Retailers

Before we move on to look at how packer concentration is allowing Cargill, Tyson, and others to take larger portions of the profits from the beef sector, let’s look briefly at food retailers. Concentration has increased in that sector as well.

Among US food retailers—on whose shelves a significant amount of Canadian beef ends up—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.¹¹² The big five in the US are Wal-Mart, Kroger, Supervalu/Albertson’s, Safeway, and Ahold.

In Canada, our ability to analyze retailer concentration is hamstrung by the fact that our government refuses to provide citizens with data on the structure and conduct of the retail sector—specifically, to provide us with methodologically consistent measures of food retailer concentration. Though comprehensive statistics are difficult to obtain, experts estimate concentration levels are even higher here than in the US. For instance, here is an 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. . . . [B]eef is a very important component of overall sales in the retail sector¹¹³

The following table does provide some detail and a CR5 for Canadian retailers that is similar to the 67% figure published by the Alberta Auditor General.

Figure 38. Top ten grocery retailers in Canada by market share 2005

Retailer	Sales (in million \$)	Market Share	Retailer	Sales (in million \$)	Market Share
Loblaws	23,894	32.0%	Costco	3,550	4.8%
Sobeys	10,960	14.7%	C Store	3,258	4.4%
Safeway	5,492	14.7%	Wal-Mart	2,758	3.7%
Metro	5,201	7.0%	Drugmart	2,659	3.6%
A&P	4,400	5.9%	Overwaites	2,667	3.6%

Source: Reproduced from House of Commons Standing Committee on Agriculture, *Canadian Livestock and Beef Pricing in the Aftermath of the BSE Crisis*, April 2004, p. 24. The Committee cites “CIBC World Markets estimates.”

The Agriculture Committee/CIBC data from the above table yields a CR5 figure for Canadian food retailing of 74.3%—much higher than that for the US. Further, the actual concentration that Canadians experience is somewhat different, for a number of factors. First, as noted in the Alberta Auditor General quotation, above, many retail chains do not operate in every region

(A&P, Safeway, and Metro, for instance). Thus, regional markets will tend to have higher CR5s than the 74.3% derivable from the table above. On the other hand, co-operatives are significant retailers in some regions, and chains such as Wal-Mart are moving into Canadian food retailing. Nevertheless, we can probably draw two conclusions about Canadian retail concentration: Levels are higher here than in the US, and, like in the US, levels here are increasing.¹¹⁴

Given the rising concentration among retailers and their growing market power, it is very likely that retailers may be pocketing ever-larger portions of the consumers' grocery store beef dollars. Many graphs in this report provide clear evidence that some group—either packers or retailers—is taking a larger and larger portion of the grocery-store beef dollar. Those who resist the idea that packers are taking ever-larger percentages must then entertain the idea that retailers are. Canada needs an investigation of who is taking what from the system. That investigation must force both packers and retailers to open their books so that independent experts can determine who is pocketing the missing billions from the beef sector. Such an investigation is critically important to *all* Canadians, because citizens are increasingly being forced to replace those missing billions, in the form of taxpayer-funded farm support programs.

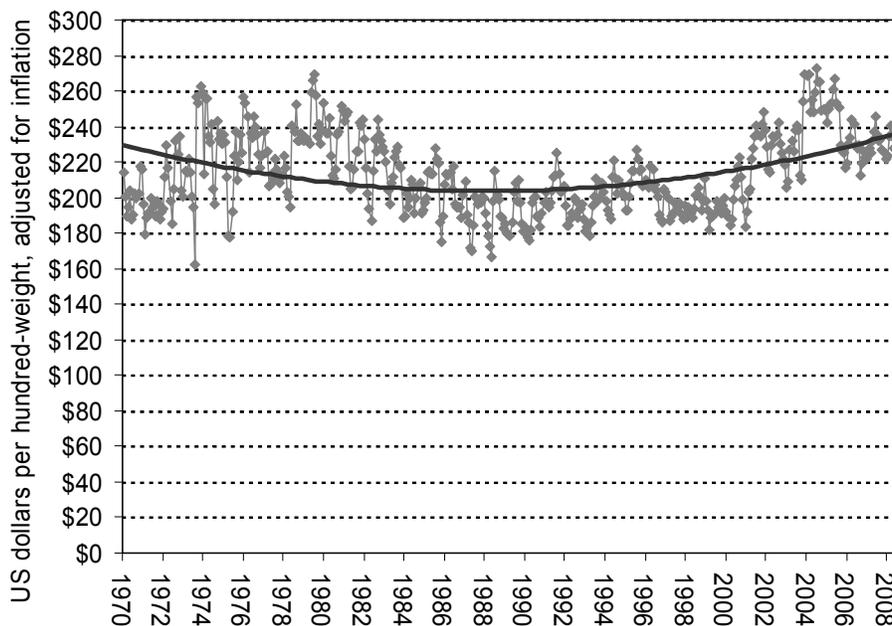
Much more research and much more public data are needed so that Canadians and policy-makers can accurately assess the relative contributions of retailers and packers to creating the current cattle price crisis.

13.1.2 Main Report: Actual causes: Corporate concentration: Who's taking what?

Many of the graphs above—for example, Figure 37, that shows packer concentration rising and cattle prices falling—demonstrate only correlation, not necessarily causation. The case against packers and/or retailers becomes much stronger, however, if we find evidence that those corporations are reaping higher returns even as farmers are reaping lower ones. If that evidence emerges, it begins to look like packers and others are taking money that would otherwise have gone to farmers. The following provides such evidence.

Figure 39, below, graphs the spread between prices charged for US retail beef and prices paid for farmgate cattle. The price spread between farmgate and retail is equal to the amount that packers and retailers take. The numbers are adjusted for inflation using the US consumer price index, the units are US dollars per hundred-weight, and the source is the USDA. The dark-coloured trendline is mathematically calculated (using the polynomial method) to give a sense of larger trends within the data.

**Figure 39. 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.

Throughout, this report has pointed to 1989 as a pivotal year. This report has argued that changes occurring around that time have led to lower prices for cattle farmers ever since. This graph demonstrates that point yet again. Notice that the low point on the trendline corresponds to 1989. In the years leading up to 1989, the spread between the retail and farmgate prices was decreasing—packers and retailers were taking less and less. This could be partly a result of increasing efficiency in the beef packing and food retail sectors. Since 1989, however, the spread has been increasing. One explanation of this increasing spread—packers and retailers taking more—could be declining efficiency and higher costs. But that explanation doesn't fit

the facts. Post 1989, packing plants continued to be renewed, expanded, and made more efficient. Packers have been pushing down wages and pushing up productivity.¹¹⁵ On the retail side, the proliferation of superstores and Wal-Marts means that over the past 20 years, per-unit costs for food retailers have almost certainly gone down.

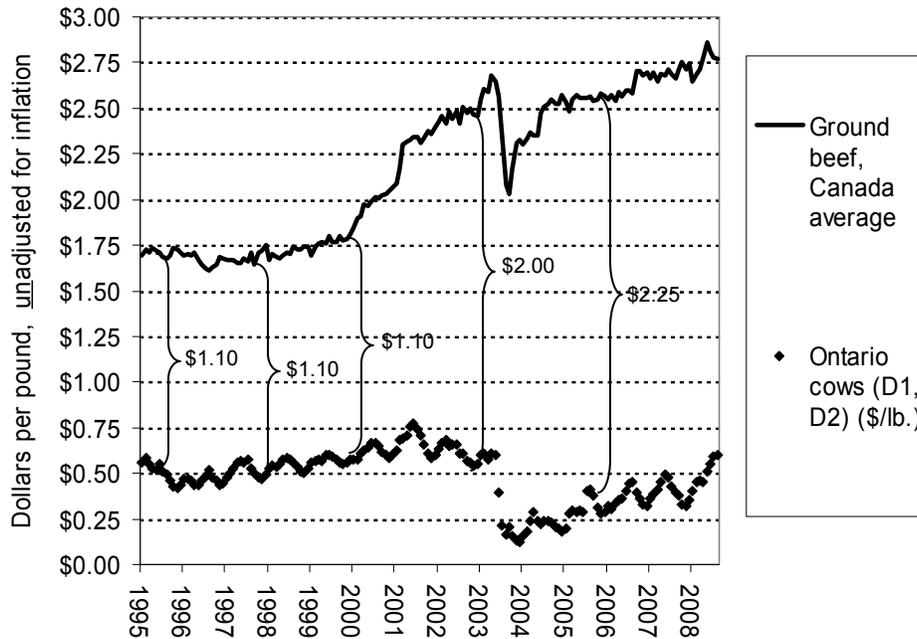
No, the reversal in the direction of the trendline in 1989 is probably not related to a reversal in efficiency trends. Rather, it is more likely that competition levels before 1989 compelled packers and retailers to pass on some of their efficiency gains to farmers. Post-1989, increasing concentration and increasing packer and retailer power probably allowed those companies to keep larger and larger shares of the gains for themselves. As noted earlier: efficiency generates profits; power determines who pockets those profits.

Let's look at this graph again. Recall that this report previously pointed out, in analyzing long-term price graphs, that prices today are about half of pre-1989 (inflation-adjusted) prices. Recall also that the difference between the normal prices that persisted between 1942 and 1989 and the prices of today is about \$85 per hundred-weight on fed cattle (1942 to 1989 prices averaged \$174 per hundred-weight, live-weight; prices for the past year averaged \$85 per hundred-weight). Figure 39, above, shows us that since 1989, the amount captured by packers and retailers is higher by about \$35 (US\$) to \$40 (US\$) per hundred-weight. That's nearly half of that missing \$85 per hundred-weight. Admittedly, the above graph and its farmgate/retail spread analysis are based on US figures. But it is unlikely that the situation is much different on this side of the border. (Many of our biggest packers and retailers are the same as those in the US; meat and cattle flow across the border.) Thus, it is likely that increasing power on the part of packers and retailers, and decreasing competition, is allowing them to take a bigger share of the consumers' steak and hamburger dollars. This larger take on the part of retailers and packers leaves farmers with less. According to US data, had packers and retailers continued to take the same amount as they were taking in the latter 1980s, cattle prices today would be \$35 (US\$) to \$40 (US\$) per hundred-weight higher. That situation would represent a 50% increase in prices for independent feeders and for cow-calf producers.

Further, had packers and retailers continued to take less and less, had they continued to pass gains from rising efficiency back to farmers as they did between 1970 and 1989, had the trendline continued to slope downward, then the boost to farmgate cattle prices today might be even more than that \$35 (US\$) to \$40 (US\$) per hundred-weight—perhaps \$50 or \$60 per hundred-weight.

Let's have another look at this phenomenon of increased revenue and profit extraction by packers and retailers. Canadian farmers are today selling cows for prices that are one-third of their 1942-to-1989 average. Recent cow prices are as bad as those of the 1930s (see Figure 23 to Figure 28, above). Many have pointed to these Depression-like cow prices as proof that Canadian markets are grossly defective. In light of the fact that recent cow prices have been near (or at) record lows, it is illuminating to look at retail ground beef prices.

**Figure 40. Manitoba cows 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).

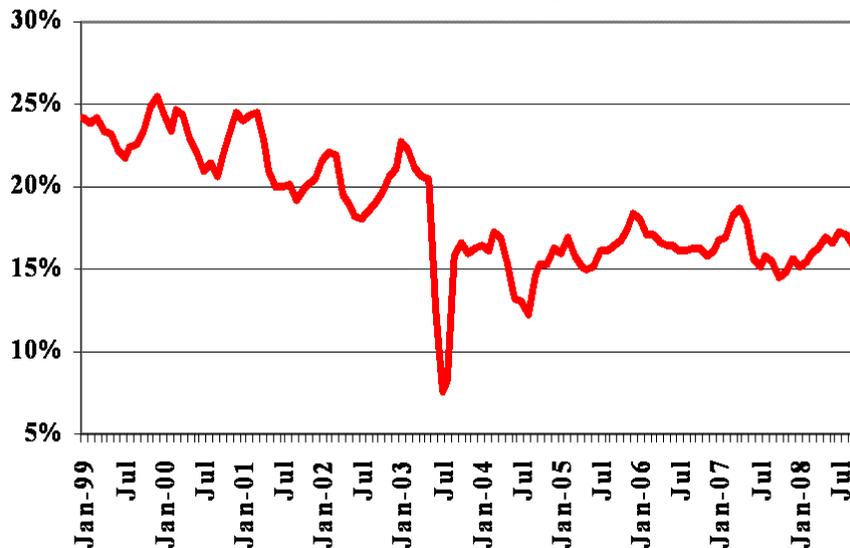
Figure 40, above, shows representative slaughter cow prices (Winnipeg, Manitoba, D1 and D2 grade) in dollars per pound, live-weight, 1995 to 2008. Prices are not adjusted for inflation because of the relatively short period covered by the graph. The graph also shows the Canada-average price for ground beef.

Between 1995 and 2000, the spread between the price of a pound of ground beef and a pound of live-weight cow held steady at \$1.10. Currently the spread is \$2.25 per pound. Over the past eight years, packers and retailers have doubled the amount they take from a pound of ground beef. Seen another way, if packers and retailers had maintained the same \$1.10 spread that held through the second half of the 1990s, with today's retail ground beef prices, slaughter cow prices would be about \$1.65 per pound (\$2.75 - \$1.10). That \$1.65 per pound is approximately *four times* cull cows' recent-year-average values of 40¢ to 45¢ per pound.

One further note: Today's large gap between farm and retail prices is not completely, or even largely, a result of the BSE crisis. In the three years before the BSE crisis, the gap between farmgate and retail was expanding. Even before BSE, the price spread between a pound of ground beef and a pound of cow (live-weight) had increased from \$1.10 in the latter-1990s to \$2.00 in late 2002—almost doubling. The spread has been at least \$2.00 ever since.

Evidence demonstrating the growing retail to farmgate spread is everywhere, yet many mainstream cattle organizations remain unable or unwilling to tackle the issue. Figure 41, below, is reproduced from CanFax's website. CanFax is a division of the Canadian Cattlemen's Association.¹¹⁶

**Figure 41. Fed steer price as a percentage of retail beef price
January 1999 – July 2008**



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

Figure 41, above, shows the price of a fed steer as a percentage of the retail value of the meat made from that steer. The CanFax graph shows the whittling-away of the farmers’ share of the grocery store dollar. Conversely, it shows the *increasing share that packers and retailers are taking*. Moreover, it shows that packers and retailers were expanding the amounts they were taking well before BSE hit—the farmers’/feeders’ percentage was being pushed downward since 1999 (and probably before). Recently, farmers and feeders have been receiving roughly 16% of the retail value of beef, according to CanFax and George Morris Centre’s *Canadian Boxed Beef Report*. In 1999, farmers were receiving about 24%. That difference of 8% is bigger than it first appears, because 8% is half of 16%—the share farmers currently are receiving. If farmers’/feeders’ share of the retail beef price was restored to its late-’90s levels, farmgate prices would rise by nearly 50%—an increase of about \$42 per hundred-weight on fed steers. Note that this amount is nearly identical to the amount of missing money derived from US farm/retail spread data (see Figure 39, above).

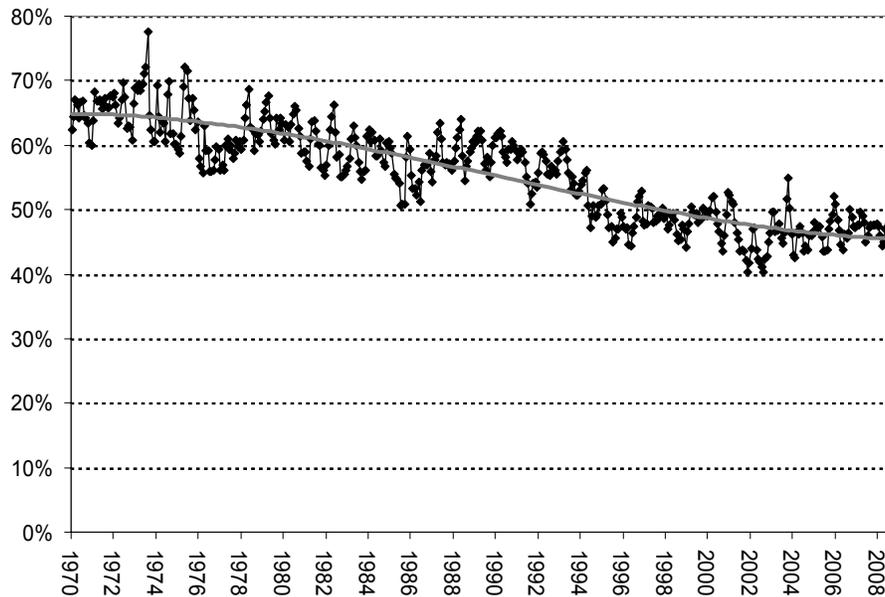
Commenting on a nearly identical CanFax graph in 2004, the House of Commons Standing Committee on Agriculture incisively analyzed the data as follows:

The Alberta fed steer price, which in January 1999 represented 25% of the retail price of beef, represented only 15% of the retail price in December 2003. . . . [W]hile [the graph demonstrates] the plight of cattlemen relative to packers and retailers since the BSE crisis struck—confirming what many Canadians suspected—the graph also points out that *this pattern has been transpiring for more than four years—long before a single case of BSE was found in Canada* [emphasis added].¹¹⁷

Further, CanFax’s graph extends back only as far as 1999. If we had a graph of Canadian “farmers’ share” data extending back to the 1980s, it’s almost certain that the “plight of cattlemen relative to packers and retailers” (to use the words of the Standing Committee) has been deteriorating for decades. Thus, more complete data on Canadian farmers’ share of the retail beef dollar may reveal the whereabouts of most of the \$1,100 per fed steer and \$420 per

feeder calf missing from the cheques of cow-calf producers and independent feeders. (In future versions of this report, the NFU will work with CCA, CanFax, and the George Morris Centre to compile the needed Canadian data and to generate a graph similar to that in Figure 41, but extending back to the early 1980s.) Though we don't yet possess long-term data on the cattle farmers' share of the retail beef dollar in Canada, we do have those statistics for the US. Figure 42, below, shows cattle farmers' share of the retail beef dollar over the past 49 years. It also includes a trendline—the grey curved line. [Note that Canadian farmers' share percentages in Figure 41 are not directly comparable with US farmers' share percentages in Figure 42.]

**Figure 42. US farmers' share of retail beef values
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.

The USDA calculates the “farmers’ share” of the retail value of the meat produced from a standard beef animal. Figure 42 shows that the farmers’ share has fallen sharply, from 65% in the early 1970s to 46% today—from roughly two-thirds to roughly one-half. Again, this declining farmer share directly reflects an increasing packer/retailer share. Had that post-1970 increase in packer and retailer takings not occurred, US feeders would today receive 41% more money per head.¹¹⁸

In designing its “price spread” and “farmers’ share” datasets, the USDA was careful to ensure that changes in consumers’ buying habits (buying more of their groceries as processed foods, for example) did not affect the data. The USDA’s Economic Research Service (ERS) says:

Most ERS food price spreads are affected by changes in both food prices and the amounts and kinds of services that consumers buy with their food. Food price spreads can increase—even if food prices do not—when consumers shift their purchases from less to more processed foods. This documentation describes a calculation of price spreads based on a standard animal, cut up in a standard way at a packing plant, and sold in standard form through a retail store. ERS's goal in calculating the retail meat values is to have a measure that reflects only price changes.¹¹⁹

Thus, farmers' falling share depicted in the graph above is real—not the result of changes in buying habits or processing practices. Retailers and packers are taking more and passing less back to farmers. And they have increased the amounts they take from the system even though bigger, more efficient packing plants and superstores have created an option for them to *decrease* the amounts they take. For packers and retailers, efficiency and bigness came tied together in the same package. Efficiency gave packers and retailers the option to pay farmers more; bigness gave them the option to pay less; this report clearly shows that these large corporations chose option #2.

There is an urgent need, in both Canada and the United States, to get to the bottom of the question of packer and retailer profits in the beef sector. Significant further research is needed on this front. Though more research is needed to pin down exact numbers and percentages, it is already clear that increasing packer and retailer extraction of revenues and profits from the cattle/beef sector *is the largest single factor behind the current cattle price crisis*. SRM removal costs might be a couple of dozen dollars per animal, at most. Changes in currency values might be costing a bit more. But increases in the amounts taken by packers and/or retailers—on both sides of the Canada-US border—add up to hundreds of dollars per animal.

Confronted with data on a widening price spread between farmgate cattle and retail beef, packers may well point accusingly at retailers. Retailers, on the other hand, will predictably point at packers. We need an inquiry to get to the bottom of this issue. And following our research and inquiry, we need action—action to restore price- and profit-disciplining competition, rebalance market power, and ensure a much fairer and more equitable allocation of profits.

A profound lack of curiosity regarding packer profits

On May 13, 2004, House of Commons Agriculture Committee Chair and rural Ontario Liberal MP Paul Steckle asked for unanimous consent to fine packers Cargill and Tyson \$250,000 for each day after May 20 that they did not provide financial details of how their revenues and profits were affected during the previous year and as a result of BSE.¹²⁰ Canadian Alliance MP Gerry Ritz, Vice-Chairman of the Committee, voted against the motion.¹²¹ Thus, fines were never levied. Tyson and Cargill never opened their books.

For more on the saga of the Committee vs. Tyson and Cargill, see Section 14.0 of this report, below.

Are packers making money?

Parallel to this report, the NFU is examining packer profitability. Initial study shows that there is reason to be skeptical of industry protestations of poverty. Consider, for instance:

- Many of Tyson's and Cargill's most profitable years have been recent ones. The five most profitable years in Tyson's history were, in descending order, 2004, 2002, 2005, 2003, and 2007. Tyson was *four times* larger, in terms of revenues, in 2007 than it was just ten years earlier. Cargill's best-ever year, in terms of profit, was fiscal 2008. Cargill is nearly three times larger than it was a decade ago.
- Tyson, Cargill, and XL all have expanded their Canadian packing plant capacities in recent years.
- Cargill bought Better Beef.
- XL is trying to buy Tyson's Lakeside Packers plant in Brooks, Alberta.

Moreover, when we look at return-on-equity rates for these companies—on a five-year average or a ten-year average basis, for instance—we find these returns are *far* higher than those of cattle farmers. When packers claim “not to be making money,” they mean something very different than when farmers claim the same thing.

A financial analysis of the packing sector (and the retail sector) would reveal profit levels and return on equity numbers that are *multiples* of the profits and returns earned by family farmers.

13.1.3 Main Report: Actual causes: Corporate concentration: Conclusion

To talk about the packing and retail sectors without talking about power is to utterly miss the most important aspect of the issue. Power is the real issue; it determines the allocation of profits. It is the very thing that these companies strive for (though they couch it in different language: “growth,” “profitability,” “shareholder return,” and, especially, “competitiveness”). What these companies are really seeking, especially when they merge with or take over other firms, is power—the power to survive, the power to take money from the system in ever-larger quantities for themselves. The preceding is not a subversive view—certainly not a view from “the left” or a socialist perspective. It is merely a clear-eyed formulation of what every businessperson knows, what every large corporation wants, and what every shareholder encourages.

The project of stabilizing profits for the women and men who birth, rear, feed, and sell cattle is inextricably linked to the project of restraining the power of packers and retailers. Those who balk at the latter are not sincerely engaged in efforts to accomplish the former.

13.2 Main Report: Actual causes: Continental integration and export overdependence

The bigger the pie, the better our chance of getting our share of it.

—Hugh Lynch-Staunton, then-President, Canadian Cattlemen's Association, at the Manitoba Cattle Producers Association Annual General Meeting, Brandon, Manitoba, December 12, 2007

Because farmers have been making less and less profit per calf and cow, industry leadership and government have urged farmers to “try to make it up on the volume.” Thus, after 1989, Canada aggressively ramped up production and exports. That strategy has been a massive failure. The export push is a significant cause of the pain now being felt by cow-calf farmers, breeding stock producers, and independent feeders. The export push has failed to provide the benefits its advocates predicted. Moreover, it has brought many costs—BSE, COOL, etc.—and it threatens to bring many more. Our policy of focusing so heavily on exports must be reversed.

Criticizing Canada’s export strategy will be unpopular in many quarters. Advocating a reversal of that policy and a return to a focus on serving our domestic market will be a lightning rod. The vast majority of the notice and criticism this report receives will be directed at our suggestion that Canadian cattle farmers need to return to a focus on serving Canadian domestic markets.

The Canadian Cattlemen’s Association and most of its provincial affiliates collect their fees on a per-animal basis; the leadership from many of these organizations’ (especially in the west) will vociferously resist any attempt to work toward a smaller but more profit-generating Canadian herd. There is tremendous fear apparent whenever the idea is broached of scaling back production in order to restore profit. The NFU considered, in order to avoid this controversy and criticism, excluding from this report any suggestion that Canada needs to pull back from its export focus. But the costs of export overdependence are today so obvious, and potential future

costs and risks are so huge, that it would be intellectually dishonest to turn aside from the obvious: The export-maximization project has failed; we must end it.

A critical distinction is necessary: Nothing that follows or precedes should be misconstrued as a call to close the border. Exports are not the problem; engaging in trade is not the problem—beef and cattle will always cross the Canada-US border, and other international borders. The problem is export *overdependence*, creating a situation wherein our cattle sector is highly dependent on foreign markets and highly vulnerable to policy changes in those markets and to fluctuations in access to those markets. The problem is that we've made ourselves massively dependent on undependable markets. This report examines the provocative correlation between the ramp-up in exports and the crash in prices.

Here are a pair of quotations from the very comprehensive Informa Economics studies of the Canadian and US cattle and beef sectors:

A high level of dependence on the US market for large volumes of beef sales is deemed to be a competitive weakness for the Canadian beef industry and especially given the ownership situation of the two major packers.

Lessons learned from the BSE situation clearly demonstrate that reducing dependence on the US market for a growing percentage of total output is virtually essential for the long-term sustainability and/or growth of the Canadian industry.¹²²

Let's look at how we have come to be so export overdependent, at how we might reverse that error, and at the many benefits we might gain as a result of restoring balance between Canadian production and consumption. At the same time, let's look at the forces of continental integration—trade agreements, regulatory harmonization, etc.—that both spurred and facilitated Canada's move to make itself a supplier-of-last-resort for the US market.

1989 marked the takeoff point for continental integration—the absorption of the Canadian cattle and beef sectors into the US system. Some would call it a hostile takeover. The mechanisms of continental integration were, and are, three-fold:

- 1) In January 1989, we implemented the Canada-US Free Trade Agreement (CUSTA)—effectively fusing our two already-partially connected beef markets.
- 2) Shortly thereafter, US-based packers Cargill and IBP (later Tyson) took over the Canadian packing sector, displacing the Canadian-based companies that formerly had owned and controlled it. In 1988, the Canadian beef packing sector had been virtually 100% Canadian owned¹²³—a rarity amongst major Canadian manufacturing sectors. Cargill timed the opening of its High River plant to come just months after the 1989 implementation of the CUSTA. US-based packing giant IBP soon followed. Another US-based meat giant, Tyson, purchased IBP and its Alberta plant. Thus, today, Canada's beef sector, once our own, is now predominantly US-owned and controlled.
- 3) Canada embarked on an export-expansion drive—ramping up beef and cattle exports to serve the US market and making our production and processing sectors adjuncts to those US sectors.

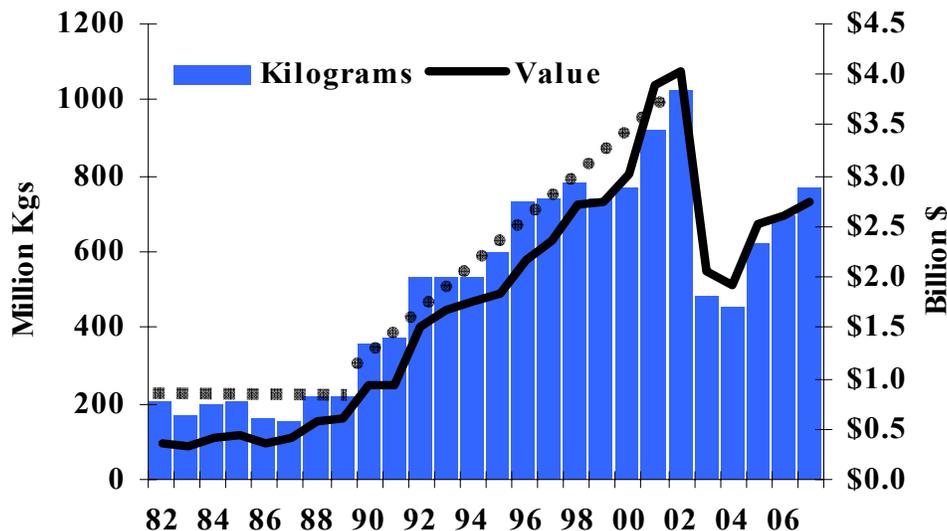
Let's begin by looking at mechanism 3—a drive by government, packers, and several cattle organizations to spur increased production and to re-orient and refocus the Canadian cattle and beef sectors to serve export markets.

One example of the government/industry push to increase exports is the 1989 creation of the Canadian Beef Export Federation (CBEF). CBEF “develops key export markets to increase the sale of Canadian beef products. . . .”¹²⁴ According to a past version of its website, CBEF “represents Canada's cattle and beef industry taking responsibility for their export future, in partnership with government.”¹²⁵ That “partnership with government” includes government providing 71% of CBEF’s funding.¹²⁶

CBEF and the post-'89 push to increase beef exports was just one part of a much larger overall scheme by federal and provincial governments to dramatically increase agri-food exports *of all types*. The Canadian government in the 1990s was so focused on increasing agri-food exports that Nettie Wiebe, then NFU President, commented: “In this country, we don't have an agricultural policy: we have a trade policy that periodically disguises itself and masquerades as an agricultural policy.”¹²⁷ Here is an example of our governments’ aggressive export focus: in 1993, federal and provincial governments pledged to work to double agri-food exports to \$20 billion by 2000. Having accomplished their goal by 1996, ahead of schedule, federal and provincial Ministers pledged to redouble exports to nearly \$40 billion by 2005.¹²⁸ (This latter goal was actually suggested by the Canadian Agri-Food Marketing Council, a private-sector group that includes representatives of Cargill, Maple Leaf Foods, McCains, and the Canadian Beef Export Federation.)

Figure 43, below, is reprinted from the website of CanFax (www.canfax.ca). CanFax’s graph shows 25 years of Canadian cattle exports, in terms of both volume (millions of kilograms) and value (billions of dollars). Dollar values are not adjusted for inflation. This report adds to CanFax’s graph two straight dotted grey trendlines to help highlight the rapid increase in exports and the 1989/90 takeoff in Canadian export volumes and values.

**Figure 43. Canadian beef and cattle exports
(from CanFax, not adjusted for inflation)
1982 – 2007**



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

According to CanFax and Statistics Canada, Canadian beef and cattle exports were modest and stable prior to 1990, with volumes steady at levels below 200 million kilograms and values around half-a-billion dollars. In 1990, however, exports turned steeply upward. Between 1990 and the 2003 case of BSE, Canadian exports increased five-fold on a volume basis and *eight-fold* on a dollar-value basis. Clearly, efforts to gain access to the US and other markets, to increase production to serve those export markets, and to significantly refocus the Canadian sector toward an export orientation have been 100% successful.

But the export push has not been a success for family farmers here. To the contrary, 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, recent prices are half the values that prevailed in the five decades before 1989.

Post-'89 continental integration was swift and aggressive, but it was incomplete. We became more dependent on exports, but we never gained *dependable* access to the US market (or others). 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. A single case of BSE sprang that trap, pushing down prices that for numerous reasons were already far below historic norms.

If the Canadian cow-calf and independent feedlot sectors are on their knees today, it is not because of a failure to produce-and-export, it is *in spite of* tremendous success in that project. This report goes further: it asks readers to consider the possibility that we're on our knees partly *because of* our tremendous success producing and exporting. We're in trouble because we produced too much and tried to serve an export market that has proven costly and unstable.

Hugh Lynch-Staunton was wrong when he said that enlarging the pie increases farmers' chances of getting a piece of it (see quotation on page 81). Over the past two or three decades, Canadian cattle production has increased sharply. But cattle farmers' net incomes have declined sharply. Never has our beef pie been so big, nor the cow-calf producers' slice so slim.

Perhaps another pie metaphor is more apt. Joe Hill, American labour activist and songwriter, gave us the lyrics: "Work and pray, live on hay, You'll get pie in the sky when you die. *That's a lie!*" He was talking about the promises the powerful make to the less fortunate in order to get them to work hard and maximize output. From this song comes the common phrase "pie in the sky." Maybe that's the kind of pie that the export push creates for farmers.

13.2.1 Main Report: Actual causes: Continental integration and export overdependence: The costs

Production maximization, 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. Here's an overview of some of the costs:

BSE

The costs from the BSE crisis are in the billions, and continue to mount. Key is this: Had Canada not been export overdependent, the financial pain of that resulted from a case of BSE would have been much, much less. One can imagine, for instance, that several cases of BSE are found tomorrow in the US. Prices would change little, because the US is a net importer—it matters much less to US producers whether borders close for their products. In Canada, in reality, there was no “BSE crisis”; there was an export-market-reliability crisis, the trigger for which was a single sick cow.

But we must not think that our problems with exports began in 2003 with the BSE crisis. The long-term price graphs clearly show that our problems began 14 years earlier; as exports went up, prices went down. Nor should we think that problems with export overdependence will end when the lingering fallout from BSE ends. No, the problems stemming from export overdependence are all around us, and will remain so. Here are some more examples:

Traceability, tracking, and tagging

A cost that is largely a result of export overdependence is the Canadian Cattle Identification Agency (CCIA) and its Canadian Livestock Tracking System (CLTS). This Cadillac traceability system has proven costly and troublesome to many producers. Our elaborate system exists partly to reassure foreign regulators and to ensure access to export markets. As the CCIA says in its 2006/2007 Annual Report:

January 4th marked an important date for the CCIA in 2006, when after much planning and developing, the agency released the new Canadian Livestock Tracking System (CLTS). This system, designed with the functionality of the previous database, includes the completed traceability modules such as Age Verification, Premises Identification, RFID [Radio Frequency Identification], and Movement & Sighting, and has the capabilities to add new Value-Added services in order to further enhance the CCIA's traceability program. Since its release, the CLTS has provided the cattle industry with a reliable and integral method of information keeping *in order to re-open and keep international and domestic markets open to Canadian beef exports* [emphasis added].¹²⁹

COOL

The costs of US Country Of Origin Labelling (COOL) are mounting. Rick Paskal, President of the National Cattle Feeders Association, said of COOL: "There is going to be a cost incurred by Canadian livestock producers and it is going to start at the feedlot level . . . and it will force it back up the chain to the cow-calf guy."¹³⁰ The full extent of that cost is not known at this time, but it will probably be several dollars per hundred-weight. Moreover, and more troubling, it is almost certain that the price of *all* Canadian cattle will be discounted, not just those we actually

export. To be more precise, Canadian cattle prices are based partly on US prices for those cattle, less costs such as transport, border costs, etc. If the effect of COOL is to lower the value of Canadian cattle in the US, then the price of all Canadian cattle will fall—those we export, and those we don't. This price-lowering effect on non-exported cattle is a direct result of our export dependence. (Consider: Even though the US exports beef to Canada, a Canadian COOL law would not lower the price of US cattle in the domestic US market, because the US is not export dependent.)

Other potential costs

Over the horizon loom several other potential risks and costs. Chief among these are possible new disease outbreaks such as foot-and-mouth disease. A Canadian outbreak—increasingly possible as globalization accelerates—could close the Canada-US border to live cattle for much longer than did BSE. The financial effects would be devastating.

There are other risks as well. In the past few years, the US has imposed duties on Canadian hogs, duties on spring wheat and durum, and voluntary export caps on wheat. It has abused Canada regarding softwood lumber. It is very likely that, should the US herd expand to a size whereby US packers no longer need Canadian cattle and beef, the US may begin a series of political closures and partial closures comparable to what we've seen with other commodities. Similarly, if the volume of cattle flowing into the US from other nations—Australia, Canada, New Zealand, Brazil, Argentina, Uruguay—rises significantly and begins to discomfit US producers, the US government will take other measures that close or partially close their borders; COOL is just one example of such tactics.

Living on an “export basis”

One final cost associated with export overdependence is important to our discussion, both because it has a significant price-depressing effect here, and because it holds the potential for significant price increases.

Cattle farmers often hear that Canadian cattle are priced at “US price minus. . . .” This means that Canadian prices are often roughly equivalent to the US price less the applicable transportation and logistics costs. Why is this so? Why must Canadian cattle sell at a discount relative to US cattle? The answer: Because we're net exporters and the US is a net importer. To put it another way, Canada can't consume all the cattle it produces. This gives Canadian packers some pricing leverage. A Canadian farmer or feeder with a fed steer or heifer can sell to a Canadian packer. But if that farmer or feeder decides not to, his or her next best market is an export market. Thus, the packer can offer a price that is equivalent to the farmer's net price in the alternative market—essentially, US price less transportation costs. In practice, this Canada-US price spread works out to about \$8 per hundred-weight^{131, 132} to the detriment of Canadian farmers (Alberta/Texas comparison).

So what if, hypothetically, Canada was a net importer of US cattle and US beef? It's very likely then that Canadian prices would rise to US prices *plus* the cost of transport. We might go from -\$8 to +\$8, a difference of \$16 per hundred-weight on fed cattle. That's a big difference. On an \$85 per hundred-weight slaughter animal, an extra \$16 per hundred-weight is a 19% increase—about \$210 per head. Seen another way, when computing the cost of our export overdependence, that \$210 per head should figure prominently. If that \$210 per head

was captured by feeders and most of it passed down the line to farmers who produce feeder cattle and calves, the economic benefits would be significant.

In summarizing the five Informa Economics studies, staff at CanFax and Alberta Beef highlighted Informa's contention that "Canadian fed cattle and feeder cattle prices [trade] at a discount to the US market *due to the export dependence of the Canadian industry* [emphasis added]."¹³³ The Informa report itself states: "Fed cattle prices in [Canada/Alberta] are and will continue to trade at a discount to the US market as long as the Canadian industry is highly export dependent. . . ."¹³⁴ "[T]his puts the industry firmly on an export basis."¹³⁵

Conclusion

Export overdependence is costly. Border closures, high-cost traceability schemes, COOL, a "US minus" export basis, and uncertainty over future export access combine to cost farmers dearly. *Export overdependence and its attendant costs are significant contributors to the current cattle price crisis.*

13.2.2 Main Report: Actual causes: Continental integration and export overdependence: CUSTA and NAFTA

Cargill's arrival and our export-volume takeoff are tied to a third event: the January 1, 1989, implementation of the Canada-US Free Trade Agreement (CUSTA). In terms of US/Canadian cattle market integration, CUSTA was both the gas and the grease. In the following quotation, the House of Commons Standing Committee on Agriculture draws a direct line from CUSTA (they use the acronym "FTA") to increased exports:

"The export market has enjoyed phenomenal growth since the late 1980s. In the early 1980s, the value of Canadian cattle and beef exports consistently hovered just below the \$500-million level. In the 15-year period that followed the 1988 implementation of the FTA,* Canadian cattle and beef exports experienced an eight-fold increase, the equivalent of a 16.3% annual compound growth rate. The FTA was clearly the principal stimulus for this strong performance. . . ."¹³⁶

Prior to CUSTA implementation, our cattle and packing sectors were Canadian-owned, Canadian-focused, democratically shaped by Canadian citizens, and relatively profitable for independent feeders and cow-calf producers. Today, these sectors are none of those. One could say that, as a direct result of CUSTA and NAFTA, we lost our beef and cattle sectors in that we, as a nation and as citizens and farmers, lost our control over these sectors and assets. Most important, we now risk losing the family farmers who are the root and core of these sectors. CUSTA, and NAFTA that followed, created far more losses than gains.

* The Committee report errs in stating that CUSTA was implemented in 1988. The Agreement was signed in that year, but implemented January 1, 1989.

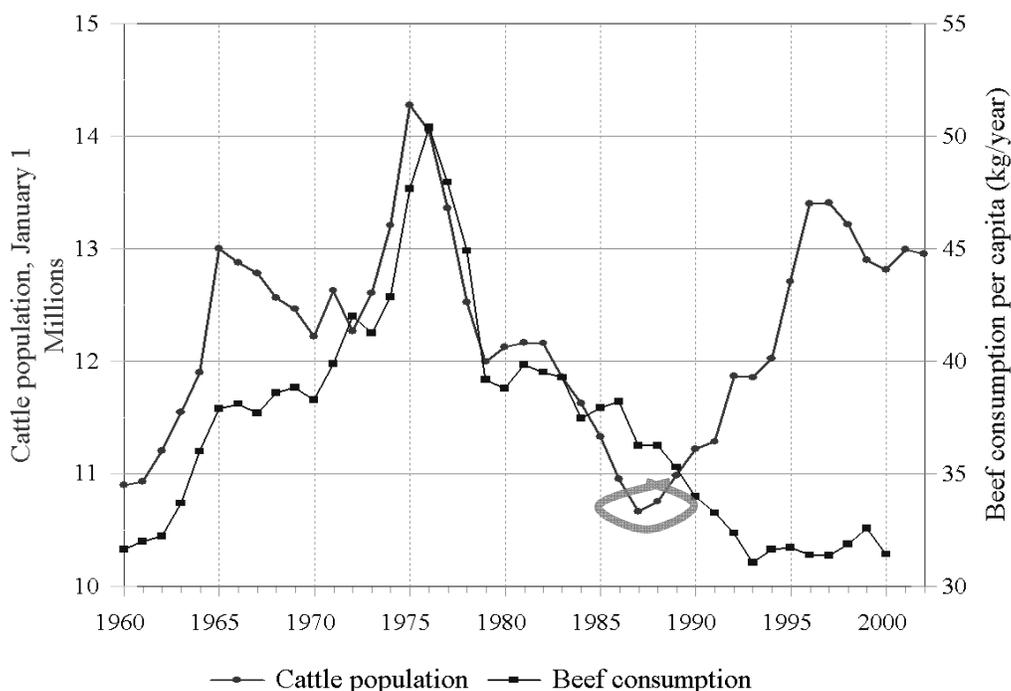
13.2.3 Main Report: Actual causes: Continental integration and export overdependence: The Americans do it differently

The term “continental integration” seems to imply changes in all participating countries and a final configuration that blends characteristics from all. The term implies that Canada alters its beef and cattle systems to accommodate US practices and rules and, similarly, the US alters its practices and rules to accommodate Canada; US packers establish operations in Canada, and Canadian packers establish operations in the US; Canadian farmers come to rely on US markets and, equally, US farmers come to rely on Canadian markets. Of course, this is not what happened. If we continue to use the term “integration” at all, it must be with the caveat that there were, and are, significant asymmetries in the integration process. There were winners, and there were losers. Some did the integrating; others had the integrating done to them.

Another point we need to be explicit about is that the US government and US farmers, feeders, and packers implemented a strategy after 1989 that was opposite to that of Canada’s. When we ramped up production and put a large portion of our eggs in the exporter basket, the US reduced/stabilized its own production. Let’s look at the numbers.

In the late 1980s, despite continuing declines in Canadian per-capita beef consumption, Canada began expanding cattle numbers and beef production. Figure 44, below, was prepared by Dr. Ian MacLachlan, University of Lethbridge, for a PowerPoint presentation. The graph shows Canadian per capita beef consumption and total cattle population during the period 1960 to 2002.

Figure 44. Canadian per capita beef consumption and cattle population 1960 – 2002



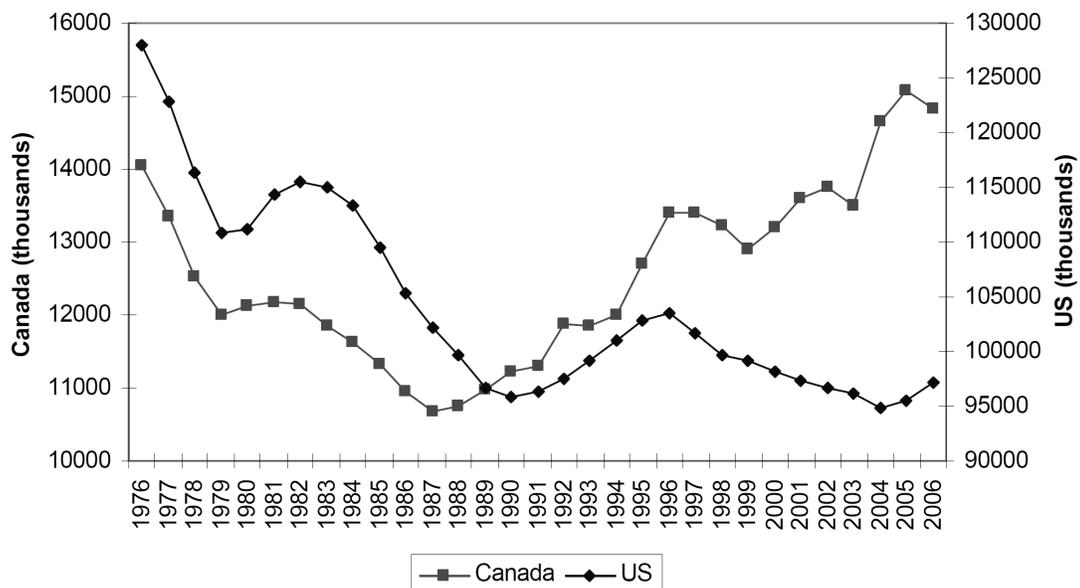
Source: Reproduced from Ian MacLachlan, *Aristocrats and Outcasts: The Old and New Union Geographies of the Canadian Packinghouse Workers*, PowerPoint presentation <http://classes.uleth.ca/200301/geog3225a/Aristocrats.ppt> .

The graph shows that, for several decades, Canadian cattle numbers (and production) roughly tracked changes in per-capita consumption levels. As Canadians increased the amounts of beef they ate, our cattle numbers went up. As per-capita consumption went down, so did cattle numbers. See, for instance, the pre-1987 period in Figure 44.

But in 1988 or shortly after, despite continued declines in per capita consumption, Canadian cattle numbers and production took off. See the circled data points on the Figure 44 graph, above. At that point, we see Canadian cattle production “unhook” from domestic consumption.

This same cattle inventory and production takeoff did not occur in the US. Figure 45, below, shows US and Canadian inventories of cattle and calves for January 1 of each year from 1976 to 2006. The line with diamond-shaped points graphs US inventories against the scale on the right-hand side. US inventories varied between 95 million head and 130 million head. The lighter-coloured line with the square points graphs Canadian inventories against the scale on the left-hand side. Canadian inventories varied between about 10.5 million and 15 million head. The graph is reproduced from a report by Informa Economics.

**Figure 45. US and Canadian cattle inventories
1976 – 2006**



Source: Reproduced from: Informa Economics, *Task 1: US and Canadian Supply Chain Descriptions and Evaluation of Points of Difference*, August 2006.

As noted above, Canadian cattle numbers began rising in 1988 and did not stop. US cattle numbers began rising a few years later, rose modestly, but then reversed direction and began falling. This has led to a very different cattle-supply situation in Canada compared to the US. Informa Economics tells us: “As of January 1, 2006, the Canadian cattle herd is 32 percent larger than in 1990, while the US cattle herd is only one percent larger.”¹³⁷ Moreover, when compared to 1988 (rather than to 1990), the Canadian herd has grown by almost 40%; the US herd, in contrast, has contracted by a few percent.

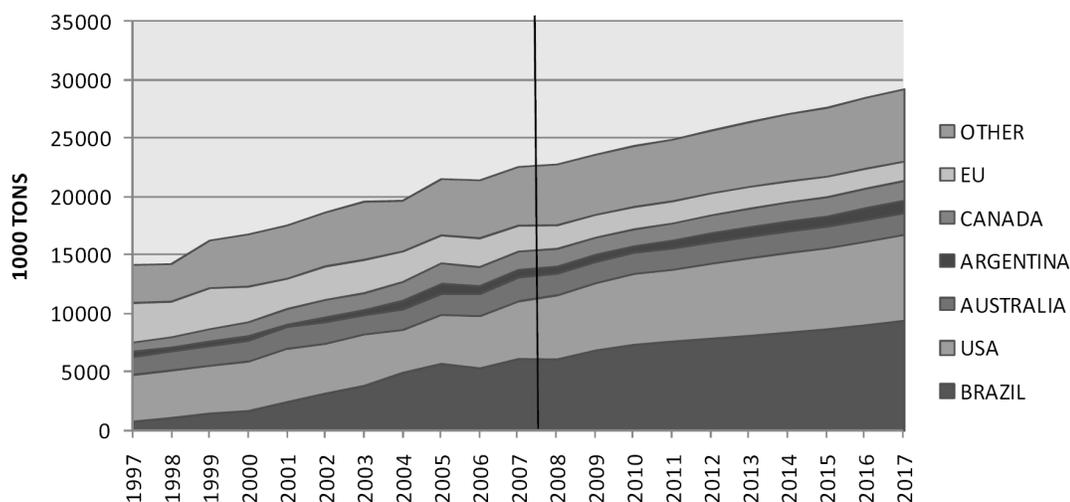
The Canadian cattle and beef sectors made a conscious decision to outgrow their domestic market and serve the US and other export markets. US producers made a different decision; the US is a net importer. In light of the collapse in prices and profitability here, we need to reassess our decision.

13.2.4 Main Report: Actual causes: Continental integration and export overdependence: Conclusion

Earlier, in the box entitled “The next phase of corporate concentration,” this report suggests that the JBS (Brazil) takeover of Swift (US), Smithfield beef division (US), Tasman (Australia), and, potentially, National Beef (US) signals a new phase in the reorganization of the global beef sector. Markets and packers—long-ago national and currently continental—will increasingly be global. One super-packer will kill nearly as many cattle in a day as all Canadian plants kill in a week; in its Five Rivers feedlots alone, it will finish half as many cattle as Canada finishes in total.

Further, these global packers will smooth out logistics and transport problems and thus gain the ability to source more and more beef from further afield. Exports from Australia, New Zealand, Uruguay, Brazil, Argentina, Nicaragua, Mexico, Honduras, and elsewhere will increasingly challenge Canadian beef in world and US markets.

Figure 46. World meat exports and projections 1997 – 2017



Source: Reproduced from: OECD-FAO, *Agricultural Outlook 2008-2017*, July 2008.

Figure 46, above, is taken from a recently released report by the United Nation’s Food and Agriculture Organization (FAO) and the Organization for Economic Co-operation and Development (OECD): *Agricultural Outlook 2008-2017*. The graph shows the projected expansion of Brazilian beef exports in upcoming years. “Given abundant land resources, capital and technology in combination with policy reforms, Brazil is expected to assume a 30% share of

total world meat exports by the end of the projections,” comments the OECD-FAO report.¹³⁸ The ascendancy of JBS adds to the likelihood of increasing Brazilian dominance.

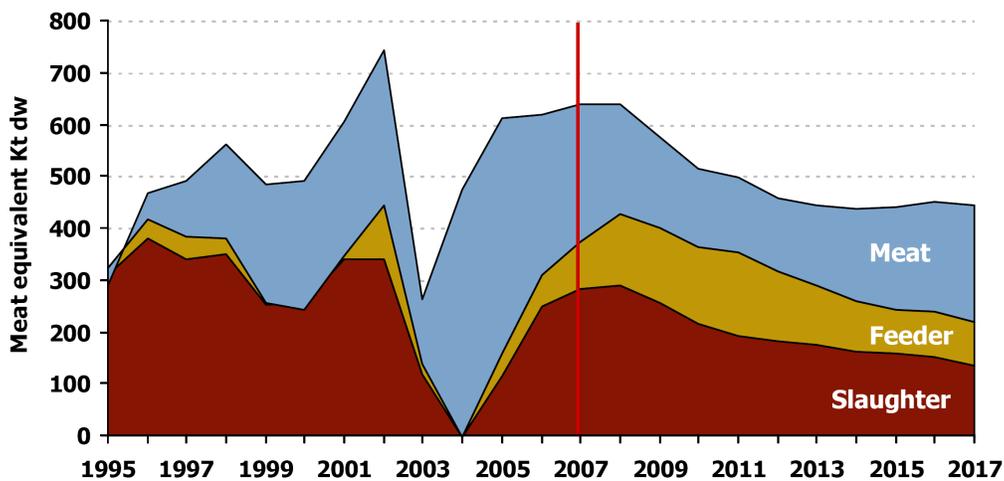
Turning to our country, however, that same OECD-FAO report states:

Canada’s share in world meat exports is expected to decrease from around 8% in the base period to under 6% in 2017. Continuing high feed prices, the expected continuation of the strong currency and increasing labour costs in the meat packaging industry contribute to this development.¹³⁹

According to the FAO and the OECD, Canada will face intensifying global competition and a deteriorating competitive situation. In terms of Canada’s attempts to advance itself as a global meat exporter, the coming decade threatens to be as fraught with peril as the past one.

The Canadian government agrees with the OECD/FAO appraisal. Figure 47, below, is a recent Agriculture and Agri-Food Canada projection of Canadian beef and cattle net exports. It shows declining overall exports over the coming nine years. The units are in meat-equivalents, thousands of tonnes (kilotonnes), dressed weight.

**Figure 47. Canadian meat and cattle exports and projections
1995 – 2017**



Source: Reproduced from Agriculture and Agri-Food Canada, *Medium Term Outlook for Canadian Agriculture, International and Domestic Markets*, March 2008, p. 26.

AAFC projects that 2008 will be the best year for exports in the coming decade and that total volume of Canadian beef and cattle will decline by about 30% over the next nine years. Moreover, the decline will be about 39% when compared to the 2002 peak. If there is good news in this projection, it is that a greater percentage of total exports will be in the form of meat—more cattle will be slaughtered here, and fewer feeder and slaughter cattle will be exported alive. Nevertheless, Ag. Canada projects large decreases in overall net exports.

In terms of relative competitiveness, Canada may face significant challenges. As feedgrain prices continue to rise (and grain prices will rise as global population moves past 7 billion, 8 billion, 9 billion people), barley-finished beef from Canada will have a tougher and tougher time competing with grass-finished beef in many markets, despite our quality advantage. Further, as

markets globalize and more and more low-cost exporters attempt to push beef into those markets, packers headquartered in Arkansas, Minnesota, or Brazil may be unmotivated to find export sales for comparatively costly Canadian steaks and roasts.

Thus, Canada is at a decision point. We have data showing that cattle farmers have not fared well during our two-decade experiment in maximizing production and exports. To this, farmers can add UN and AAFC data indicating that global mega-packers are restructuring world beef and cattle markets, probably to the disadvantage of Canada. We need to decide: Do we stay the course and try to push our beef into an increasingly uncertain and perilous world market? Do we risk border closures from US protectionism or foot-and-mouth disease? Or do we refocus to serve one of the best and richest beef markets in the world, one to which we have guaranteed access and low transportation costs? Should farmers and other citizens turn over more and more control to Cargill and JBS and the vagaries of the global markets? Or should farmers work to take control of markets in Sarnia and Sackville and Squamish?

The costs of export overdependence are very, very high. After two decades of pursuing this path, after a spectacular eight-fold increase in Canadian exports, cow-calf and independent feeders are on their knees. We must reverse course, take control of our future, and prosper by producing high-quality, local beef for millions of Canadian families.

In the “Solutions” sections that conclude this report, we will look at how we can make the orderly transition to a more secure and profitable Canada-focused beef system.

13.3 Main Report: Actual causes: Captive supply

“Captive supply,” in the context of the beef and cattle sectors, refers to practices wherein 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.

The most straightforward form of captive supply is when packers directly own cattle, either in their own feedlots or in those of third parties (custom feeding operations). This practice is widespread in Canada, but data is difficult to obtain and a certain amount of secrecy prevails.

Among the biggest feedlots in Canada is Lakeside Feeders, owned by Tyson Foods Inc., and located just across the highway from Tyson’s Lakeside beef packing plant near Brooks, Alberta.

Figure 48. Tyson packing plant and feedlot, Brooks, Alberta



Source: Google Earth®.

Figure 48, above, is a satellite photo of Tyson’s beef packing plant (upper right-hand corner) and its Lakeside Feeders feedlot (lower left-hand corner). The feedlot measures 1½ miles across. It has a one-time capacity of 75,000 head.¹⁴⁰ Assuming 2½ to 3 turnovers per year,* its annual output could be 187,500 to 225,000 head of finished cattle—13% to 16% of the Tyson plant’s annual capacity.

* Feeder cattle spend less than a full year in a feedlot. Thus, the feedlot can be stocked with feeder cattle and emptied more than once per year. The output of the feedlot is therefore a multiple of its one-time capacity.

Many respected analysts and academics agree that packers use captive supplies to hold down prices, to the detriment of independent feeders and cow-calf producers. 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 the 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%.¹⁴¹ 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.

Captive supplies give packers a hammer when dealing with independent cattle feeders. Moreover, such practices make it harder for feeders to retain their independence—forcing them into contractual or other arrangement with packers.

Owning cattle outright is just one way packers organize captive supplies. Another form of captive supply is the use of contracts that do not contain fixed prices, contracts wherein feeders agree to deliver cattle and to be paid based upon prices at auction yards during the week of delivery (or to be paid based on "plant average" prices).¹⁴² The contracts usually contain specifications and provide premiums for hitting quality targets. Such agreements are sometimes referred to as "grid" contracts.

But because packers have some capacity to influence prices in auction marts and elsewhere—by altering their bidding practices or by drawing on cattle from their own captive supplies—they thus have the capacity to influence the eventual prices of the cattle that are contracted to them in contracts lacking fixed prices. One US-based organization fighting to ban such contracts in the US concludes: "These formula contracts and agreements depress prices and shut small and independent producers out of markets when packers base the price they pay for contracted cattle on a cash market they can manipulate."¹⁴³ Speaking at the December 6,

What's wrong with contracts?

Some cattle feeders like contracts. They say contracting can give them better access and premium prices. The theory is that producers sell the best cattle through grid contracts in order to get premiums on carcass attributes while plainer cattle are sold on the cash market for less money.

But how significant are these premiums? More to the point, how grateful should farmers be for premiums of a few dollars per hundred-weight in markets that are \$80 to \$90 per hundred-weight below long-term normals?

Granted, getting a small premium is better than not getting it, but might packers and retailers be stealing dollars and giving back dimes?

Worse, what if the very instruments that return those dimes—captive supply contracts—strengthen the system's ability to take those dollars?

In coercive or exploitative systems, there are often small rewards for co-operation and good behaviour. But the long-term goal should be to get out of those coercive situations, even if the short-term risk is the loss of those small rewards.

2006, annual meeting of the Alberta Beef Producers, Kansas State University professor Clement Ward said: “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.”¹⁴⁴

In the US, the debate surrounding captive supply is well-developed. The USDA collects and publishes data on captive supply. The USDA and many academics have published reports that attempt to quantify the magnitude of the harm from captive supply (more on this, below). Farm organizations in the US have succeeded in putting forward amendments that would ban packer ownership and control of cattle, and have succeeded in getting those amendments debated as part of the 2001 and 2007/08 US Farm Bills (though those amendments were not passed). Captive supply is an important and well-understood issue for US cattle producers.

However, Canada is a different situation. Agriculture Canada, the media, and most cattle organizations are virtually silent on the issue of captive supply. There are few newspaper articles, little discussion, and little data available on the topic. Thus, much of the following relies on US data and analysis. It is almost certain, however, that conclusions regarding captive supply in the US will have broad applicability in Canada. This is true for two reasons: the similarity of our two systems (same packers, same structure, etc.), and the interconnectedness of our prices.

Let’s begin by looking at some of the analysis on captive supply.

The Organization for Competitive Markets (OCM) is based in Lincoln, Nebraska. Its website states:

“OCM seeks to reinvigorate . . . antitrust law and competition policy. . . . True competition reduces the need for economic regulation. Our mission, and our duty, is to define and advocate the proper role of government in the agricultural economy as a regulator and enforcer of rules necessary for markets that are fair, honest, accessible, and competitive for all citizens.”¹⁴⁵

OCM has worked aggressively on the issue of captive supply for many years. Here’s an excerpt from one of OCM’s recent news releases:

“Captive Supplies lower prices for cattle producers by approximately \$69 per head. *Every study addressing the issue has found that more captive supplies are associated with lower cattle prices* [emphasis added]. In cattle, studies by Azzam, Schroeder, Schroeter, Taylor, Sexton and Ward have found cattle prices decrease by anywhere from .145% to .25% when captives supplies increase by 1%. Assuming 38.3% captive supplies in cattle (which OCM believes is too low), the price decline (using a .15 to 1 correlation ration) is \$5.75 per hundred-weight, or \$69 per 1200 pound animal.”¹⁴⁶

Using the higher of the two ratios listed in the preceding quotation (the 0.25%-to-1% ratio rather than the 0.145%-to-1%) and taking a 50% to 60% captive supply level for Canada (see below) yields a loss of about \$140 per 1200-pound animal. As the quotation states, the experts concur that captive supply creates a loss for farmers.

But this report asserts that the experts underestimate the losses caused by captive supply. Captive supply studies in the US have so far examined price changes over a time period *that is far too short*. Most studies have focused on periods of just a few years, most in the 1990s. For

the most part, researchers looking for the effects of captive supply have not been looking in the right places. This report shows that there have been *major* reductions in cattle prices, but that those reductions have occurred over a two- to three-decade period. The NFU strongly believes that a proper analysis of captive supply effects that covered an appropriate time span—20 to 25 years—would find captive-supply related reductions in cattle prices, not of \$69 per 1200-pound animal or even of \$140 per animal, but instead reductions of several hundred dollars per animal. Adjusted for inflation, Canadian fed steers are today selling for \$1,100 below their 1942-to-1989 average. The impact of captive supply on farmers' prices is probably very large and, so far, inadequately documented.

The Western Organization of Resource Councils (WORC) has also worked on the captive supply issue for many years. WORC says:

“Meatpackers acquire half of all cattle and hogs they slaughter through what are known as captive supplies. Captive supplies are livestock 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.”¹⁴⁷

Senator Michael Enzi is a Republican from Wyoming. He co-sponsored the Captive Supply Reform Act Amendment (S. 1017) to the US Farm Bill. Here is part of a statement by Senator Enzi:

“[C]aptive supply is destroying the health of our family ranches. . . . Captive supply is an industry-wide problem. . . . 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.”¹⁴⁸

Canada's captive supply problem is similar to that in the US. Using data on Canadian transactions with large Alberta-located packing plants provided by Calgary-based CanFax, 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.

. . . . Canadian estimates can be compared with U.S. estimates from mandatory price reports, which began in April 2001 (www.ams.usda.gov/lsmnpubs/). . . . One estimate of [US] captive supply would be the summation of purchases by formula-based and negotiated grid, forward contracts, and packer-owned transfers. The highest weekly percentage of captive supply occurred in December 2003, at 78.6 percent. On two other occasions, the weekly percentage of captive supplies exceeded 70 percent. Typically, in 2006, the weekly percentage ranged between 50 and 60 percent, much like the level in Alberta.”¹⁴⁹

Captive supply is up sharply in Canada. In 1973 and '74, packer-owned cattle made up 1.4% to 1.8% of total slaughter volume.¹⁵⁰ In contrast, in 2004, '05, and '06, packer-owned cattle made up between 10% and 30% of the volume each week.¹⁵¹ And this is only packer-owned cattle, one type of captive supply. As noted above, overall captive supply in Canada— packer-owned cattle, formula-based and negotiated grid, etc.—averaged 50 to 60 percent in recent years. Though these percentages are high, the real percentages may be even higher: Canadian data is based on voluntary reporting by packers and voluntary surveys of feedlots.

Captive supply interacts with (and is amplified by) the price-depressing power created by packer concentration. These two phenomena—not many competing bidders and not needing to bid if prices get too high—together strengthen the hands of buyers (packers) relative to those of sellers (independent cattle feeders). And these bidding advantages are further amplified when that bidding occurs in packer-owned auction marts (see next section).

13.4 Main Report: Actual causes: Vertical integration

XL Foods Inc. is part of Nilsson Brothers Inc., self-described as a Canadian cattle feeding and marketing company. XL is currently Canada's #3 packer, behind Cargill and Tyson. But approval of XL's bid to buy Tyson's Lakeside plant at Brooks would vault XL into the #1 position. More than just a beef processing enterprise, however, XL and Nilsson Brothers are a vertically integrated cattle and beef conglomerate.

Nilsson Brothers Inc. owns (wholly or in partnership) feedlots, cow-calf ranches, grazing land, an insurance company,^{152, 153} and a cattle financing company.¹⁵⁴ Most important, Nilsson Brothers Inc. owns or has investments in a large number of western auction facilities through which pass a very large portion of cash-market auctioned cattle. Nilsson Brothers' auction mart holdings, partnerships, and investments appear to include the following:

Manitoba

Heartland Livestock Services, Brandon
Heartland Livestock Services, Virden

Saskatchewan

Heartland Livestock Services, Lloydminster
Heartland Livestock Services, Moose Jaw
Heartland Livestock Services, North Battleford/Meadow Lake
Heartland Livestock Services, Prince Albert/Tisdale
Heartland Livestock Services, Regina
Heartland Livestock Services, Swift Current
Heartland Livestock Services, Yorkton
Saskatoon Livestock Sales, Saskatoon
Assiniboia Livestock Auction, Assiniboia
Weyburn Livestock Exchange, Weyburn

Alberta

Burnt Lake Auction, Red Deer
Grande Prairie Livestock, Grande Prairie

Nilsson Brothers, Clyde
Nilsson Brothers, Vermillion
Provost Livestock, Provost

[Note: The NFU repeatedly contacted Nilsson Brothers Inc. asking if any of the preceding auction markets were included in this list in error; Nilsson Brothers each time refused to clarify its ownership. The NFU also took steps to contact auction markets directly. Nevertheless, if any of the preceding facilities are independent of the Nilsson Brothers, the NFU regrets their inclusion in this list and will take action to correct the record.]

Nilsson-employed cattle buyers bid in many of these auction facilities. Nilsson-employed auctioneers take the bids. Nilsson-affiliated companies may be supplying financing to either the buyer or the seller, perhaps both. In some cases, the cattle might also be produced by Nilsson Brothers Inc. Through this kind of vertical integration, the major beef packers have made themselves buyer, seller, and auctioneer. Packer ownership of the sales rings and the potential for self-dealing means that independent sellers have a greatly reduced chance of getting a fair deal. In addition, all market participants suffer as price-reporting becomes increasingly sketchy, and suspect.

XL/Nilsson Brothers is not the only vertically integrated Canadian packer—Cargill and Tyson also have numerous ownership interests outside of beef slaughter and processing, including feedlots, cattle on feed, feed mills, feedgrain buying, and beef wholesaling.

13.4 Main Report: Actual causes: Conclusion

Why are cattle prices and farmers' profits so low? Because of a number of events over the past 20+ years: increasing captive supply, the arrival of Cargill and the transfer of ownership of Canadian meat packing, increasing corporate concentration, CUSTA and continental integration, the refocusing of our beef and cattle sectors onto undependable export markets, and vertical integration.*

These developments unquestionably had individual effects but, most important, they also had interconnected and mutually reinforcing effects; they shared a common logic and moved the system in a common direction. For instance, Cargill and other US-based packers set up here soon after the 1989 implementation of the Free Trade Agreement; these same companies had pushed for just such an agreement. Continental integration fed into corporate concentration—we no longer needed Canadian and US packers; one set of North American packers would do. The trade agreements facilitated movement of cattle and beef across the border; that facilitation of

* Other factors have had some effects on cattle prices, though those effects are sometimes unclear and hard to isolate. Future studies of cattle pricing issues may also want to look at the effects of the following: the 1985 US Farm Bill (which had the effect of lowering feedgrain prices, especially in Canada); the 1985 to 1996 US Export Enhancement Program (EEP) (which also lowered grain prices in Canada and around the world); the 1995 end to the Crow Benefit (which lowered grain prices). Though these factors may have had some effect, it is important to note that their effects should have been to push calf and feeder cattle prices *up* (because they lowered grain prices and, thus, the cost of gain): instead, cattle prices fell. Thus, though the NFU is aware of these significant factors, they are not featured in this analysis because it appears that the effects of these policies were trumped by larger, countervailing forces that were pushing cattle prices down.

movement set the stage for increasing exports from Canada. US ownership of our packers also facilitated that cross-border movement, solving the problem of finding US markets. Corporate concentration is tied to vertical integration—they are two species of the same phenomenon; captive supply is yet another such species. The many seemingly separate problems are actually a set of *interlinked* problems; a syndrome.

These several related developments increased the power of packers and retailers and, thus, drove corresponding changes in relative profitability. Farmers are poorer today because they are weaker. But this need not be the case. Farmers have the power. Farmers have the numbers. Farmers have the assets in the system. Farmers own the cattle herd. Farmers merely need to organize themselves to utilize a small portion of their power, not to dominate packers and retailers but rather to rebalance relative power in the system and, thus, rebalance the distribution of profits.

Over the past two decades, cattle farmers have not been encouraged to organize effectively or to use over their power. Instead, many of the most powerful check-off funded cattle organizations have urged a one-for-all attitude that papered over the very real differences in interests and power between cow-calf producers, larger feeders, packers, and retailers. The organizations that did so disempowered farmers and turned away from promising solutions.

The good news is that solutions are plentiful. Farmers need only to reorganize and reorient to pursue them. The next section looks at some of those solutions.

14.0 Main Report: Solutions

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.

But there are solutions—promising ones. Many such solutions are detailed in the following pages.

14.1 Main Report: Solutions: Deal with packer and retailer power

- 1. Ban packer ownership and control of cattle, and require all finished cattle to go through independent public auctions or be sold by fixed-price contracts with full disclosure of terms.** In some months, captive supplies comprise more than two-thirds of the total reported sales to the big Alberta packing plants.¹⁵⁵ This level of captive supply is about equal to the level in the US. In addition, our level of packer concentration is higher than that in the US. Thus, the price-depressing effects of captive supply here are amplified by the price-depressing effects of packer concentration. And these price-depressing effects get passed down the chain to backgrounders, cow-calf producers, and producers of purebred and breeding stock. A foundational step in solving the cattle crisis is banning packer ownership and control of cattle. This should happen immediately.

If packers cannot own cattle, they must buy them. How they buy them is important. Packers cannot be allowed to purchase cattle through contracts that lack fixed prices. Sales must be through open public auctions or through fully-disclosed fixed-price contracts.

Putting a high proportion of cattle through open auctions creates significant benefits: increased bidding intensity, transparent price discovery, the opportunity for small farmers and independent feeders to have equal access to these important markets, equal access for small processors to top-quality fed cattle, protection for farmers from packer retaliation, and increased trust within the system.

Further, not all cattle sold by public auction need to make the physical trip to the auction yard. Some of that sale volume could take advantage of advancing technology in satellite and Internet auction sales, thus saving stress on the animals and transportation costs.

Some cattle will continue to be sold, under contract, directly from feeders and farmers to packers. Such sales bring some benefits: reduced travel costs, handling expenses, and auction fees. In such cases, however, the terms of these contracts must be public—submitted to a federal agency and published within 48 hours of their signature. Such contracts must also contain fixed prices. Fully disclosed, fixed-price contracting allows all industry participants to determine real prices. This will also raise levels of trust within the system.

Banning packer ownership and control of cattle removes captive supply as a price-depressing tool for packers. In addition, such moves create other benefits: cattle feeding can be decentralized because all farmers and feeders can have equal assured access to markets at comparable prices; this allows more family farmers to finish cattle. Further, feedlots can be geographically decentralized, thereby reducing the risk that manure concentrations will contaminate groundwater and surface water.

Banning packer ownership and control helps farmers in four ways: (1) prices will rise once captive supply ends; (2) the allocation of profit within the system improves as packer power is restrained; (3) feedlots are disconnected from packers, thus creating a superior balance of power within the cattle system and within cattle organizations; and (4) farmers have additional production options as on-farm finishing and medium-sized feedlots become viable.

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 those same packers are pursuing corporate concentration strategies—acquisitions, mergers, vertical integration—that reduce competition to levels inadequate to discipline packer behaviours or support prices. With just two or three firms dominating fed cattle slaughter, Canada has one of the most concentrated beef sectors in the world. And with those same packers owning feedlots, cattle on feed, feed companies, and auction marts, we have a textbook case of competition suppression. The federal government must reverse corporation concentration and the erosion of competition.

Long-term data and evidence show that as packers have become more concentrated, they have cut the prices they pay farmers and feeders (see Figure 3, for instance). If we are to restore prices to the levels that were normal and routine in the 1940s, '50s, '60s, '70s, and '80s—prices double levels today—then we must rein in corporate power and concentration. We must do this at the packer level, and also at the retail level. Only by dealing with the growing imbalance of power in the beef chain, can we deal with the growing imbalance in the distribution of profits.

Several steps are necessary to properly counter packer power and concentration:

- a. Stop packer mergers, takeovers, and plant sales. Canadian and US governments need to say “No” to the proposed sale of the Lakeside plant by Tyson to XL and the proposed takeover by JBS Swift of National Beef Packing and the beef unit of Smithfield.
- b. Work with the US government toward a *deconcentration* of the beef sector—more regional ownership, more diversity of ownership, and more farmer 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, and environmental goals of Canadians.

- 3. Decouple vertically integrated packers.** Canada's dominant packers own feedlots, cattle on feed, feed supply companies, grazing land, cow-calf operations, cattle financing companies, farm and ranch insurance companies, and many of the auction yards.¹⁵⁶

If we are to have any hope that market may even begin to function properly, then the dominant packing companies must be made to participate in those markets, rather than merely self-dealing. And the dominant packers must be made to participate in ways that as much as possible equalize the market 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. Further, 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 just slightly less for steak and ground beef than they did 20 or 30 years ago. Adjusted for inflation, however, farmers are getting about *half* of what they received 20 or 30 years ago. There is a lot of money going somewhere—approximately \$85 per hundred-weight, live-weight, on fed cattle, approximately \$1,100 per head.

Packers plead poverty, claiming they are not the ones taking the ever-larger chunks from consumers' beef dollars. If that's true, then retailers must be profiteering like never before. Either grocery store chains—Wal-Mart, Costco, Safeway, Sobeys, Weston (Loblaws, Superstore, Extra Foods, etc.), Metro, A & P, Overwaitea, and so on—or food wholesalers must be gouging consumers. If we believe packers and their stories of ever-thinner margins, we are forced to conclude that our food retailers and/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.¹⁵⁷ Job 1 in solving the cattle price crisis is determining exactly who's taking how much. Farmers are willing to open their books for all to see, if others in the system will do likewise. If packers, retailers, and wholesalers have nothing to hide, they should be willing to disclose their profit levels.

14.2 Main Report: 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 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 in Canada (and across North America) is creating sufficient packer competition. The best result would be for that competition to be farmer-owned. 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 beef processing facility. Several US plants are owned or partially owned by farmers, and have been for many years. Canadian farmer co-ops in grain handling and dairy sectors have been tremendous successes (some no longer exist, but their demises are more linked to their successes than to their failures).

As noted above, Canada needs to create and implement a national meat strategy. Core to that strategy would be a medium- and long-term shift in location, ownership, and conduct of the Canadian meat packing sector. The current beef processing system is extremely poorly structured: it is geographically concentrated (most capacity is in Southern Alberta); it is concentrated in ownership; it is damaging to cattle farmers in those regions that have been left with no packer, or only one; and it is non-responsive to Canadian citizens or their government (see box, below). 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. Such a future requires that citizens and governments shape the sector. JBS, Tyson, and Cargill will not deliver these outcomes to Canadians.

Democratic control of our food system . . . vs. Tyson and Cargill

For a detailed, blow-by-blow description of Canadian legislators' attempts to compel Cargill and Tyson to open their financial statements and to answer questions about profiteering during the BSE crisis, see House of Commons Standing Committee on Agriculture and Agri-Food, *Study of the pricing of beef at the slaughter, wholesale and retail levels, in the context of the BSE crisis in Canada*, "Third Report" and "Fourth Report," available on the Internet at <http://cmte.parl.gc.ca/cmte/CommitteeHome.aspx?Lang=1&PARLSES=373&JNT=0&SELID=e22...1&COM=8785&STAC=809402>

The Third Report contains responses from Cargill and Tyson to requests by elected representatives for these companies to open their books. For example, this excerpt from an April 21, 2004, letter from Cargill: "As a privately held agri-business, Cargill does not, under any circumstances, release financial information to government bodies other than what is deemed necessary by the Canada Customs and Revenue Agency (CCRA) and regulatory agencies. The information provided does not segment our financial data into different business activities or locations. There are no legal requirements for Cargill to certify financial data that is segmented into different business activities and locations. What is more, we deem our financial records to be highly confidential and are committed to protecting this information for obvious competitive reasons."

Canadian-based XL, Levinoff, and Better Beef all complied with the Committee's requests. Tyson and Cargill did not. Thus, the Parliament of Canada was prevented from determining the extent of packer profiteering and the ultimate destination of hundreds of millions of dollars paid into the cattle sector by taxpayers during the BSE crisis.

In light of this conduct, farmers wonder: Does Canada have a beef packing sector, or is Alberta merely hosting a rump portion of the US packing sector?

- 6. Tailor food safety regulations to encourage local abattoirs.** Medium-sized and large farmer-owned packing plants are important ways to create competition for, and alternatives to, JBS, 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 communities; and if we want to foster enterprises that create high-value sausage, deli-meats, and processed food products. Dispersed local abattoirs—alone or 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 and inspections to the scale and activities of the abattoir. One aspect of that tiered system might be an allowance for limited interprovincial exporting for some smaller abattoirs.

7. **Build collective marketing agencies.** The power imbalance between farmers and packers is dramatic. Tyson is a \$27-billion-dollar-per-year company;¹⁵⁸ Cargill is 4 times larger.¹⁵⁹ Either packer is ten thousand times bigger than our biggest family farms. One way to rebalance power and profit within the cattle and beef systems is for government to work with farmers to create collective-marketing agencies. Orderly marketing (coupled with a requirement that all cattle move through independent public auctions or sell through fully disclosed fixed-price contracts) could bring 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;
 - d. Protection from packer and large-feeder retribution; and
 - e. A check on the power and potential abuses by packers.

Farmers and policy-makers would have to work together in good faith to determine exactly what form these collective-marketing agencies should take (for instance: single-desk exporting agencies; single-desk, orderly marketing within Canada; etc.). More consultation and research is needed on this issue, but with the beef packing sector moving toward domination by two or three companies and with feedlots growing in size, it makes less and less sense for cattle farmers to “go it alone” as tens of thousands of individual sellers. Packers and retailers understand the business case for market power; farmers must also.

Collective marketing agencies: some examples

The NFU had hoped, as part of this report, to include overviews of the Saskatchewan Beef Stabilization Plan and the Manitoba Beef Stabilization and Marketing Plan. Unfortunately, time pressure has prevented us from including that content. The NFU hopes to prepare such overviews and analysis as part of a stand-alone report in the coming months.

14.3 Main Report: 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. Moreover, new urine-test screening for BSE¹⁶⁰ indicates the presence of BSE with 100% accuracy¹⁶¹ and promises to reduce costs (perhaps below \$10 per animal—about a penny per pound)¹⁶² and to cut the waiting time for results (perhaps below 4 hours).¹⁶³

Further, comprehensive BSE testing and BSE-free certification gives us a marketing advantage with our customers—something SRM removal does not. The decision to block comprehensive testing in Canada serves packers' interests: testing here would lead to intense pressure to test in the US, certainly uncovering unwelcome cases of BSE.

Artificial hormones are often used in large feedlots to increase the rate of 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.¹⁶⁴ The European Union continues to restrict entry of Canadian and US cattle because of EU concerns that implanted hormones may cause cancer in humans.¹⁶⁵

The continued use of artificial hormone implants combined with a de facto ban on blanket 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 in several ways: significantly diversify Canadian markets; reduce the risk of food safety-related border closures in the future (the US border may not have closed to Canadian beef if comprehensive testing had given our meat 100%-BSE-free status); give us negotiating power with big packers; encourage European- and Asian-based packers to set up here; and—as a result of all of the preceding—increase Canadian prices.

9. **Dramatically reduce antibiotic use.** In North America, antibiotic and anti-microbial use in livestock production is several times higher than its use in human medicine.¹⁶⁶ Livestock usage may be as high as 10,000 tonnes per year.¹⁶⁷ This massive antibiotic volume serves two purposes: 1. Antibiotics make possible the cramped confinement of tens-of-thousands of cattle on a few hundred acres in feedlots; and 2. Antibiotics serve as growth promoters and increase feed-conversion efficiency.

Health Canada tells us:

In general, feedlot beef cattle are routinely fed rations medicated with an ionophore to promote growth, and some are fed tylosin (a macrolide) or oxytetracycline to control liver abscesses. Individual animal injections with therapeutic levels of penicillin, tetracycline, ceftiofur (third generation cephalosporin), tilmicosin (a macrolide), florfenicol (a derivative of chloramphenicol), or trimethoprim/sulfadoxine are occasionally administered on beef cow-calf operations and, more frequently, in feedlots. In western Canada, many calves are mass medicated with oxytetracycline,

trimethoprim/sulfadoxine, or tilmicosin upon arrival at feedlots for treatment or prevention of respiratory disease. . . . Comparatively fewer antimicrobials are used in cow-calf production systems where the animals are raised extensively (outside on pasture).¹⁶⁸

Limiting livestock antibiotics to therapeutic use only (administered to animals that are actually sick) and, thus, 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 and, thus, save human lives; and
- c. help expand higher-price markets for beef raised without routine antibiotic use.

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 family farm 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 that threaten to become increasingly severe;
- d. reducing farmers' costs for purchased inputs, thus making cattle farms more financially secure and resilient;
- e. reducing petroleum use in, and greenhouse gas emissions from, beef production;
- f. maintaining more land in sustainable grass cover, thus safeguarding erodible soils and creating wildlife habitat;
- g. reducing environmental risks that occur when production and manure are concentrated in small areas; and
- h. expanding the global food supply by reducing the amount of grain and grainland used in beef production, and utilizing, instead, grasslands and marginal lands that would not otherwise produce food for humans.

There is also growing 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 economic activity, all under the democratic control of citizens and their governments. They want food that is safe and nutritious, food that is produced sustainably, and they want 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. Reduce the Canadian herd to a size that matches Canadian demand. Export overdependence and a failed experiment in continental integration have proven extremely costly: BSE losses in the billions, traceability systems, COOL, Canadian prices that are “US minus,” and the threat of future border closures from foot-and-mouth or US politics-as-usual.

Better matching Canadian production to demand will remove our hyper-sensitivity to US political twitches, potentially increase our prices to “US plus” (rather than “US minus”), and remove a number of costs that are largely outgrowths of our need to placate foreign markets.

In advocating a move away from export overdependence, however, this report is not suggesting Canada should cease to export. Canada will always ship cattle and meat out, and in. But, this report is strongly suggesting that we optimize production levels as the US does—importing and exporting beef and cattle, but matching production to consumption in order to avoid the trap and price-depressing effects of export overdependence. We want to trade, but we want to avoid being trade dependent.

Before moving forward with a herd reduction plan, the National Farmers Union reiterates that it is *critical* to ensure that implementing such a plan will make family farm cow-calf producers and small- and medium-sized feeders better off. Period. There is no point in restructuring our cattle and beef sectors if that restructuring damages the family farms that are the foundation of these sectors. Though the actual goals and strategies for any restructuring would have to be worked out democratically by farmers and others, the following goal recommends itself:

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.

Achieving such a goal would require that farmers clear \$300 to \$400 per calf. As noted above, 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 preceding goal is, more or less, a restatement of a status quo that held for nearly 50 years from the end of WWII to the coming of Cargill in 1989. Given large increases in disposable income among Canadians, advances in technology, and increases in efficiency, it is hard to see why it would be so difficult to do in 2010 what we consistently succeeded in doing in 1960 or 1980.

Before we look at the actual reductions necessary to better balance production to domestic consumption, a few clarifications are needed: First, decreasing Canadian beef production and the overall number of cattle in Canada *need not mean shrinking the number of cattle on family farms, or on any given family farm.* To the contrary, a careful integration of complimentary solutions could mean that family farmers could produce more animals, reap larger revenues, and keep larger net incomes. For instance, a combination of solutions such as: 1) banning packer ownership/control of feeder cattle and cow-calf operations, and 2) pursuing family-farm-friendly policies for livestock can, together, mean more cattle in the farmyards of small and medium-sized operations. If 30% or 40% of the cattle currently finished in large feedlots could be finished on small- and medium-sized family farms, those farmers' herd sizes and revenues and profits could all increase. Family farm cow-calf producers can earn additional income finishing beef. Creating equitable access to packers (by ending captive supply and requiring public auctions and transparent contracts) and paving the way for grass-finished beef can expand family farmers' herds, revenues, and, especially, net incomes.

To balance Canadian domestic production and consumption, production would have to decrease by 36%. The full details of that calculation are provided in Appendix A. Also in Appendix A is a discussion of some of the challenges surrounding that herd reduction. As noted above, a gradual herd reduction pursued in parallel with several of the other market reform solutions outlined in this report have the clear potential to raise farmers' per-head prices and per-head net returns.

Family farmers need not fear a reversal of Canada's ill-conceived and costly post-'89 experiment in export overdependence. Every measure shows that as the herd size and export levels have risen over the past two decades, farmers' prices have fallen. Cutting back production and exports has the clear potential to significantly increase prices.

14.4 Main Report: Solutions: Immediate needs and process issues

14. Get public money into farmers' hands immediately. This report lays out 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, we'll lose irreplaceable knowledge about place-based cattle rearing, and we'll lose our ability to produce food sustainably on much of the fragile land now grazed by cow-calf producers.

Many organizations have called for short-term money for cattle farmers. To this chorus the NFU will add one key point: Any such payments must be capped and targeted. Taxpayer money must go to family farms, not to big packers or to packer-linked feeders. The errors of the BSE recovery programs must not be repeated.

A final note on immediate aid: virtually all farm support and safety net programs in Canada over the past two decades—AIDA, CFIP, CAIS, BSE recovery payments, etc.—have failed for exactly the same reason: They did not take into account market power or the role of this power in determining the final destination of money within the system. Support payments and safety net programs cannot compensate farmers for imbalances in market power. Such programs can put money into the system, but it is market power that determines who ultimately captures those dollars. In the cattle system, the increasing power of packers and retailers has meant that these players can capture larger shares of consumers' beef dollars. In exactly the same way, that growing power means that these corporate players are able to capture larger shares of taxpayers' support dollars.

To be effective, aggressive measures to offset packer and retailer power must be built into all support and stabilization programs. Capping and targeting such payments represents a *minimum* effort to ensure that some of the benefits of these programs stay on 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.

Option b. or c. would both make cattle organizations more likely to pay attention to the actual plight of family-farm cow-calf producers, purebred and breeding stock producers, and independent feeders. 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 policies that maximize 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.

Key to solving the problem of inadequate and ill-advised representation for cow-calf producers and small- and medium-sized feeders is to allow these farmers to direct their cattle check-off money to the organization of their choice. This could lead to an increased voice for family farmers within the system, and a more energetic struggle among competing organizations to bring forward innovative strategies that actually help farmers. It is important to remember that it is family farmers—mainly cow-calf producers—that have the largest investment in the system; cow-calf producers’ assets *far* outweigh those of packers and feeders combined.¹⁶⁹ And we must remember that family farm cow-calf producers and small feeders create the bulk of the employment in the system.¹⁷⁰ Thus, it is completely illegitimate that the current CCA-dominated system discounts the interests of family farmers and elevates the needs of packers and packer-aligned feeders. In terms of cattle organization representation, 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: a restructuring of funding mechanisms that maximizes cattle organizations’ responsiveness to actual changes in the plight of 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 and support programs to encourage appropriate-scale, family farm production.** Livestock production is trending toward giantism. Once, hog barns housed hundreds of sows, now they house thousands. Large feedlots used to finish hundreds of steers per year, perhaps thousands, now the largest in Canada finish more than one hundred thousand per year; the largest in the US finish more than a million. In one version of this story, government is helping drive this giantism (in the hog sector, for instance). In another version, government is “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 legitimately serve citizens’ interests; governments must use their policy tools to advance the public good, working with citizens to identify social, aesthetic, environmental, and community-development goals for food production. Governments must help shape the livestock sector so that giantism is restrained and that community- and environmentally friendly family farm production is maximized. Necessary measures include:

- a. Capping and targeting taxpayer-funded support and bailout programs so that these programs counteract the trend toward giantism; programs should direct maximum dollars to small- and medium-sized family farm producers;
- b. Promoting diversity within the livestock sector; giving financial incentives for organic, local, alternative, and grass-fed production; and
- c. Enforcing environmental regulations in a way that recognizes that small- and medium-sized, dispersed operations create far less risk for the environment than huge operations do.

15.0 Main Report: Conclusion

To the “Great Grain Robbery” of 1972, we now need to add a tale of corporate cattle rustling. Packers and retailers have been, in a very real sense, making off with farmers’ cattle. And like rustlers of old, the modern suit-and-tie versions are doing their deeds under cover of darkness. Not the darkness of night, but rather a darkness created by governments and several cattle organizations, created by a lack of information and a lack of curiosity, and created by a lack of courage to ask tough questions, to provide honest information, or to shine a light on the bandits who are so impoverishing family-farm cattle producers. This report attempts to kindle that light.

And there are others just as guilty as the rustlers: the people charged with protecting farmers and stopping this value-theft who have instead acted as accomplices. Many cattle farmers are critical of government. But those farmers are usually critical of the wrong policies and actions. Where governments have really failed is where they have allowed mergers and facilitated corporate concentration and giantism in the retail and packing sectors; where governments have turned a blind eye to captive supply; where governments allowed a packer takeover of auction markets; and where, in a dozen different ways, governments have acted to increase the strength of already-powerful retailers and packers.

When we needed a courageous sheriff and a hard-riding posse, we instead got government agencies and some legislators more often inclined to ride with the rustlers than to stop their larceny, more inclined to arm than to disarm the powerful gangs making off with farmers’ profits.

This must stop.

Structures, policies, rules, enforcement, and relative power all matter. Getting these things right maximizes the chance that all links in a production chain will prosper. Getting them wrong means that some prosper at the expense of others. It is this latter situation that cattle farmers now face. It is imperative that farmers, democratically elected legislators, cattle organizations, and even packers and retailers work together to create a new structure and new rules that are fairly and consistently enforced and that thus balance and constrain the power of all in the system. In this way, we can rebalance the distribution of *profit* within the system. And in this way, we can end the crisis gripping cattle farmers.

We need to decide: Do we want to create and enforce rules to ensure fair play and to protect the legitimate wealth created by family farmers, or do we want the Wild West?

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. Thank you.

16.0 Appendix A: The Canadian herd: A bit smaller, much more profitable

The punchline to an old business joke goes like this: “Sure we lose money on every sale, but we make it up on the volume.”

Unfortunately, that punchline may be the underlying business model for the Canadian cattle sector. Volume is up, way up, but profits for family-farm cattle producers are somewhere between slim and negative. This report draws a direct line between production and export expansion, on the one hand, and rising costs and falling prices, on the other. Moreover, this report advocates a better path: reducing the Canadian herd, reducing export overdependence, reducing our vulnerability to the vagaries of foreign markets, and focusing on maximum profit per animal.

There is good reason to believe that decreases in production volumes can be more than offset by large increases in per-animal profitability. The question remains, however: How much will the Canadian cattle herd have to contract in order for cattle farmers to match supply to domestic demand?

The answer is: Less than most people think. Beef production would have to fall, and the herd would have to shrink, by about 36% from mid-2008 levels—by just over one-third. Figure 49, below, provides a detailed calculation of reductions needed to balance Canadian cattle production to domestic beef consumption. Those interested in the details should consult that table. More simply, however, the numbers look like this:

Canadian farmers produced about 4.9 million head of cattle for slaughter in 2007 and 0.3 million head of calves for slaughter. Those cattle and calves yielded about **1.76 million tonnes of beef**. (this number includes beef from Canadian cattle slaughtered in Canadian plants, as well as those exported alive and slaughtered abroad).

Canadian citizens consumed **1.04 million tonnes of beef** in 2007.

The numbers in Figure 49 provide details about live cattle imports and exports and meat imports and exports, but such detail is not needed here—the two numbers above give us enough information to make a good calculation of necessary herd reductions. If our cattle production in 2007 was the equivalent of 1.76 million tonnes of beef and our consumption was 1.04 million tonnes of beef, then our production exceeded consumption by 0.72 million tonnes of beef, or just less than 41%. The final piece of information we need to know is that since these 2007 numbers were collected, the Canadian beef herd has contracted by about 4.8%.¹⁷¹ Thus, if we are to better balance our production and consumption, total Canadian cattle production would have to be reduced by about 36% from current levels (41% less the 4.8% reduction that has already occurred).

**Figure 49. Canadian herd reduction calculation
(based on 2007 data, with updates to 2008)**

Canadian consumption of beef			
1a	1,278,580 Tonnes	Total production of beef and veal from Canadian packing plants (tonnes) (based on 3,491,200 head of cattle slaughtered with an average cold dressed weight of 355 kgs...) (and 330,200 calves slaughtered with an average cold dressed weight of 117.7 kgs)	Stats. Can. <i>Cattle Statistics</i> , 2008, Cat. no. 23-012, Table 11-3 See also Tables 5 & 6 (Add Cattle and calves)
1b	205,440 Tonnes	Imports of beef and veal into Canada (Meat only; no live animals)	Stats. Can. <i>Cattle Statistics</i> , 2008, Cat. no. 23-012, Table 11-3
1c	1,484,020 Tonnes	Total supply of beef and veal in Canada	1a + 1b
2a	443,990 Tonnes	Exports of beef and veal from Canada (Meat only; no live animals.)	Stats. Can. <i>Cattle Statistics</i> , 2008, Cat. no. 23-012, Table 11-3
3a	1,040,030 Tonnes	Net supply of beef and veal This also corresponds to total Canadian beef consumption (31,68kgs per person, 33 million people) (at 355 kgs per animal, this amount of beef is approximately equal to 2,930,000 head of cattle)	1c - 2a (See also AAFC, <i>Livestock Market Review</i> , 2007, Table 22)
Canadian production of cattle/beef			
4a	4,861,900 Head	Canadian "farm production" of live cattle for slaughter (this number matches—within 1%—the number of cattle slaughtered here plus those exported alive)	Stats. Can. <i>Cattle Statistics</i> , 2008, Cat. no. 23-012, Table 5
4b	355 Kilograms	Average cold dressed weight per head of cattle	Stats. Can. <i>Cattle Statistics</i> , 2008, Cat. no. 23-012, Table 5
4c	1,725,975 Tonnes	Production of beef from Canadian "farm production" of cattle (Some of this "production" is slaughtered here; some is exported alive and slaughtered abroad.)	4a x 4b
5a	317,600 Head	Canadian "farm production" of live calves for slaughter	Stats. Can. <i>Cattle Statistics</i> , 2008, Cat. no. 23-012, Table 6
5b	117.7 Kilograms	Average cold dressed weight per head of calves	Stats. Can. <i>Cattle Statistics</i> , 2008, Cat. no. 23-012, Table 6
5c	37,382 Tonnes	Production of veal from Canadian "farm production" of calves	5a x 5b
6a	1,763,356 Tonnes	Total production of beef & veal from Canadian farm production of cattle & calves	4c + 5c
7a	723,326 Tonnes	Amount by which "farm production" of beef/veal exceeds domestic consumption	6a - 3a
7b	41.0%	Percentage by which "farm production" of beef/veal exceeds domestic consumption	7a / 6a
8a	4.8%	Percentage by which the Canadian beef herd has already contracted (July '07 vs. July '08)	Stats. Can. <i>Cattle Statistics</i> , 2008, Cat. no. 23-012, p. 7.
9a	36.2%	Amount of additional contraction needed to match production to consumption	7b - 8a

Elsewhere, this report lists the many benefits of reducing the size of the Canadian cattle herd: less susceptibility to border closures, potentially less-stringent traceability standards, less vulnerability to US policies such as COOL, Canadian prices at “US plus” rather than “US minus.” But in addition to these benefits, clear-thinking cattle producers and analysts also note some potential costs and *disadvantages*. The following briefly considers three of the potential disadvantages:

- A. Fewer cattle relative to fixed costs.** Farmers have fixed costs: barns, tractors, haybines, land. They fear that smaller herds will mean that fixed costs will overwhelm net returns. Not so. The average cow-calf farm and independent feeding operation is making very small (or negative) margins over and above cash costs. On most farms today—with calf and steer prices half their pre-’89 levels—*revenues from cattle sales make virtually no contribution toward fixed costs*. That is to say, after the money from cattle sales (barely) covers fuel, feed, twine, wire, and repairs, there is not much left over to count as a contribution toward the value of land or buildings or to put into the bank to pay for the next tractor. Farmers’ worries about covering fixed costs are legitimate, but one cannot cover fixed costs, either with a big herd or a small one, if a farmer is earning tiny or negative net returns on each animal. Such is the case at present.

The idea behind a smaller herd (in concert with other measures to reform the cattle sector) is that, as a result of lower production and lower export-related costs, cattle prices here will improve significantly. It may be possible again (as it was in the 1960s, 1970s, and 1980s) that cattle prices could not only cover cash costs, but also contribute to the expansion of the farm—toward a *new* barn, a *newer* tractor, or a house for the next generation. Since current margins are so slim, relatively modest increases in cattle prices would mean large increases in per-animal margins.

The bottom line is this: Before cattle farmers and government move forward with an orderly and gradual reduction in the size of the Canadian herd, we will have to map out a route into the future that ensures that these steps will leave farmers better off. A clear plan to increase profitability must underlie steps to reduce the herd. Once good analysis is in place that shows that reductions in numbers can be offset by increases in prices, revenues, and net returns, then farmers and government should move to implement a herd-reduction program.

- B. We’ll lose the packers.** The argument goes like this: A smaller Canadian herd will mean fewer cattle going through our packing plants. Tyson, Cargill, and XL—already below maximum plant capacities—will see capacity utilization rates fall still further and, thus, face further dis-efficiencies. Packers will become less profitable and they’ll leave.

The loss of packers and of individual packing plants (two separate but related problems) is real, and one that the Canadian sector needs to tackle. But solving the problem is not as easy as simply working to keep production high and the big plants full. That approach has not worked over the past two decades. Even with very high relative cattle production in Canada, Tyson is looking to exit, leaving us with just two packers dominating the sector. Seen another way, over the past 20 years, as we’ve ramped up production and increased the herd size, we’ve lost plants and packers.

For many reasons, Canada needs to overhaul the structure and geographic location of its packing sector. We need to do so in order to deal with packer concentration; in order to

ensure that cattle production remains viable in *all* regions of the country; in order to cut energy use in, and CO₂ emissions from, beef production; and in order to increase the sector's contributions to community economic development and regional job creation. Thus, the current model of two or three packers concentrated in southern Alberta is one we have to change.

A long-term strategy to diversify the location of Canada's packing plants (additional plants in Manitoba, the Maritimes, British Columbia, and elsewhere) and to diversify the ownership of our packing plants (reduce corporate concentration) is critically needed. Thus, changes in Canada's herd size and its geographic distribution can proceed alongside gradual and predictable changes in the location and ownership of its packing sector. With taxpayer-funded support payments to cattle farmers of several hundred million dollars per year over the past few years,¹⁷² and with the total value of Canada's packing plants at about \$400 million,¹⁷³ the cost of building packing infrastructure is modest relative to current public expenditures aimed at keeping cattle farmers solvent. Farmers, governments, and communities can work with packing companies and others to create a meat processing sector that meets a diverse range of needs for cattle producers and for all Canadians. We need not assume we are hostage to the whims of the dominant packers.

C. How do we maintain the herd at optimal levels if prices begin to rise? Maintaining an optimum herd size in the face of rising prices is a problem, though it is a problem farmers and policy-makers would love to have. And it is probably not an insurmountable problem. The following are some relevant considerations. First, the US has managed to keep cattle numbers stable and to keep production better matched to consumption, despite having prices that are often higher than those in Canada.

Second, some of the pressure for individual farmers to expand can be accommodated by encouraging those farmers to finish cattle—this report advocates de-linking packers from big feeders and decentralizing cattle finishing. Rather than expanding the number of cows and the production of calves, farmers can be encouraged to expand into finishing.

Third, government policies and farm support programs that are capped and targeted can help counteract the pressure for expansion.

Fourth, governments can, if needed, use farm support money (freed up by a return to profitability in the cattle sector) to buy up younger cows and moderate production by putting downward pressure on the size of the breeding herd.

There are many, many ways to moderate cattle numbers: land set-asides and conservation easements, financial incentives for small- and medium-sized operations, tying income stabilization program participation to herd-size maintenance programs, etc.

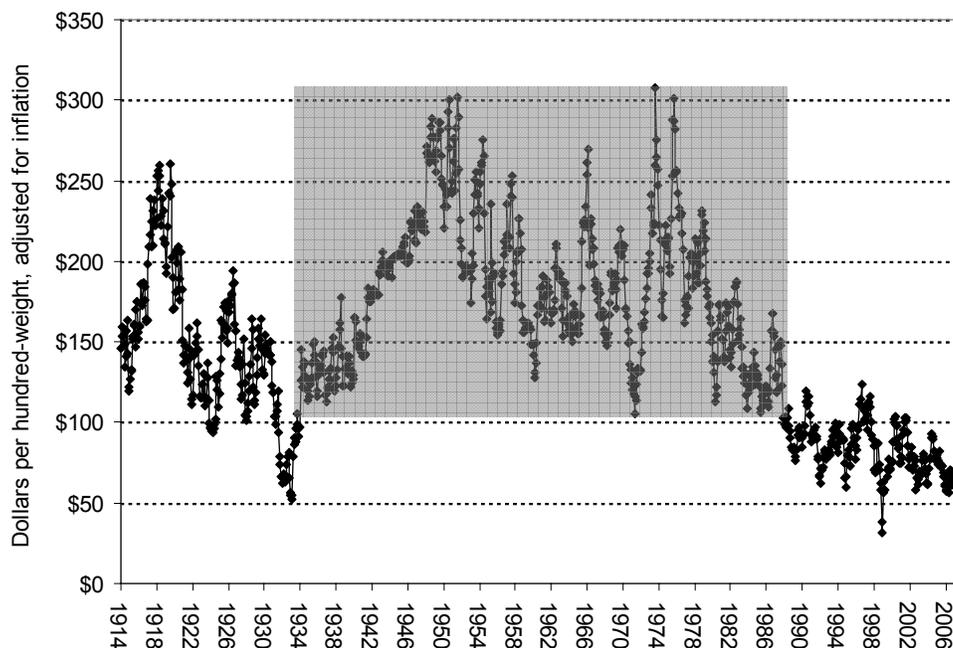
The final point is this: For approximately a century, farmers and governments maintained the Canadian cattle herd in balance with Canadian domestic consumption (see Figure 44). US farmers and governments continue to do the same. There is no reason to be pessimistic about Canada's ability to balance beef production and consumption. And there is every reason to be *optimistic* about very large net income increases if we can attain the necessary balance.

17.0 Appendix B: A brief look at hogs and sheep

Although this report's focus is on cattle, it is also concerned with other types of livestock and, generally, with economic and agricultural policy in an age increasingly shaped by corporate power.

Hence, most of the observations made above can be applied, with only minor modifications, to many other sectors. The graphs below show long-term prices for hogs and sheep.

**Figure 50. Manitoba hog prices
1914 – 2007**

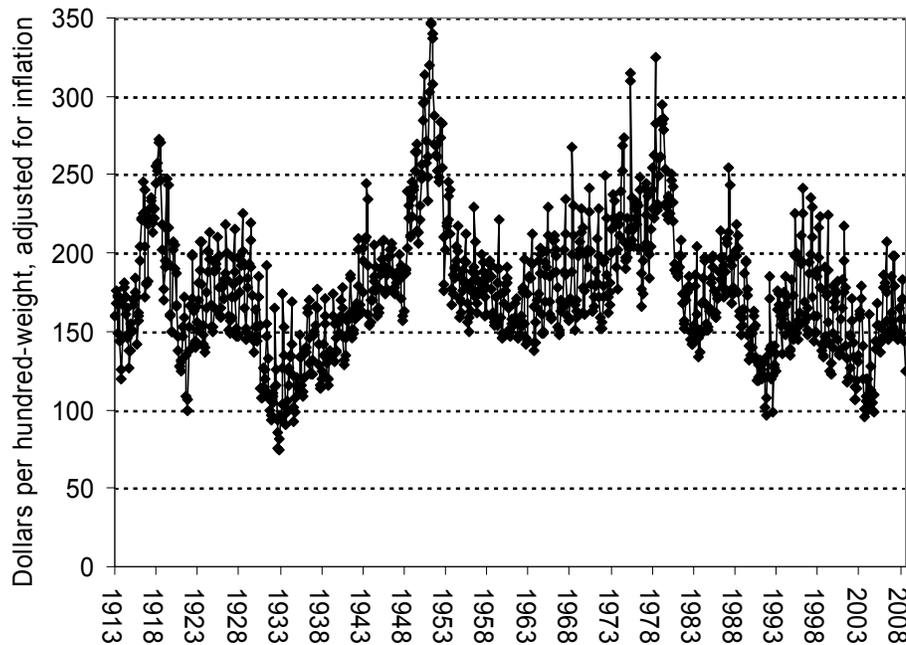


Source: Statistics Canada CANSIM.

Figure 50, above, shows the past 93 years of Manitoba hog prices, in dollars per hundred-weight, live-weight, adjusted for inflation. The shaded box shows the period 1933 to 1988. Note the significantly lower prices after 1988. Current prices echo those of the Great Depression (although the current downturn has lasted several times longer than that during the early-1930s). Long-term price relationships in Ontario, the Maritimes, and across Canada are almost certainly similar. Recent hog prices are about *one-third* of inflation-adjusted prices in the 1940s, '50s, '60s, '70s, and '80s. *The same forces that pushed down cattle prices—corporate concentration, plant closures, continental integration, increased retailer power, and a drive for exports—have also pushed down hog prices.*

Figure 51, below, shows Ontario sheep prices for the past 93 years, in dollars per hundred-weight, live-weight, adjusted for inflation. The pattern now is familiar: sheep prices, relatively buoyant for the five decades following the Great Depression, have declined since the 1980s, though not as starkly as have hog and cattle prices. Nevertheless, sheep prices are lower in recent years than in previous decades. The average price for the past year (September 2007 to August 2008) was \$155 per hundred-weight, live-weight. The inflation-adjusted average price for the period from the end of the Depression to 1989 was \$194 per hundred-weight.

**Figure 51: Ontario sheep prices
(dollars per hundred-weight, adjusted for inflation)
January 1913 – August 2008**



Source: Statistics Canada CANSIM database.

Again, the forces that have pushed down cattle and hog prices have also had a related effect on sheep prices, if slightly less pronounced.

In general, the increasing power of agribusiness and food retailers has driven down farmers' prices for nearly all commodities. Effects have been very large in cattle, potatoes, and hogs, for instance, perhaps less severe for oilseeds or sheep. Nevertheless, the problem of rising corporate power and, thus, increasingly skewed profit distributions is hitting all farmers. The case study of cattle provided above does not present a unique case; it merely provides a detailed look at a phenomenon that is being repeated, with varying levels of intensity, on virtually every farm and for virtually every commodity. In nearly every case, the root of the problem is corporate power.

Endnotes

- 1 Main Report, Section 12.7 includes detailed Canadian and US data on packing plant wages over the past several decades.
- 2 Hugh M. Horner, *A Review of the Meat Industry in Alberta*, October 1981, p. 124. (Horner cites Dawson, Dau, and Associates Ltd., *A Comparative Analysis of Pricing Efficiency in Alternative Markets for Alberta Slaughter Cattle, Phase One*, prepared for the Alberta Cattle Commission, 1981.)
- 3 Statistics Canada, *Slaughtering and Meat Processors*, Cat. No. 32-221, various years; and Horner, p. 124.
- 4 Current plant capacity numbers are from CanFax, *2007 Annual Report* (capacity numbers there are listed as “January 2008”).
- 5 Although CanFax’s 2007 Annual Report lists Canadian Premium Meats in Lacombe and Sunterra Meats in Innisfail as having weekly cattle slaughter capacities of 600 and 1,500 head respectively, conversations with managers at those plants confirm that their actual current slaughter rates are small fractions of their rated capacities.
- 6 Vahid Omidvar, Derek Brewin, and Jared Carlberg, University of Manitoba, *Selected Paper Prepared for Presentation at the Southern Agricultural Economics Association Annual Meetings, Orlando, Florida, February 5-8, 2006*, 2006, p. 5.
- 7 David J. Clarke and H. Bruce Huff, Commission of Inquiry into the Marketing of Beef and Veal, *Organization and Method of Operation of the Canadian Cattle and Beef Marketing System*, Ottawa, February 1976, Tables 30 and 31. These tables list the number of beef packing plants by province and by size. This report uses a 100,000 hundred-weight dressed weight per year (about 300 animals per week) as a minimum-size cut-off and ignores plants in the size categories below that one.
- 8 Clarke and Huff, Tables 30 & 31.
- 9 Agriculture and Agri-Food Canada, *Annual Livestock and Meat Report* [aka *Livestock Market Review*], 2007, Table 24. Note that the *Review* lists a CR4 (Concentration Ratio of the top 4 firms) for Canada and labels it “Top 4 Plants.” In the footnote to the table, *Livestock Market Review* clarifies: “Percent of total federally inspected cattle slaughtered by the 4 largest plants (companies). . . .” Correspondence with AAFC further clarifies further: the 89% figure refers to the top 4 *companies* in Canada, not the largest four plants. According to email from AAFC, the Canadian CR4 numbers are calculated the same way as are those in the US.
- 10 See, for instance, Ontario Ministry of Agriculture and Food, *Ontario Beef Packer Situation Outlook*, Toronto, Ontario, September 1988, p. 22. That report says: “Contrary to conventional wisdom, an industry can be as, or even more competitive among firms with a high concentration ratio as with an industry with a low concentration ratio. Given the preceding discussion, in the beef slaughter industry, indications are that the more concentrated the industry is, the more competitive in terms of efficiency, procurement, and financial stability.”
- 11 Canadian International Trade Tribunal, Research Branch, *Competitiveness of the Canadian Cattle and Beef Industries in the North American and World Markets*, Staff Report, Reference No. GC-92-001, August 1993, p. 27.
- 12 Agriculture and Agri-Food Canada, *Annual Livestock and Meat Report* [aka *Livestock Market Review*], annual publications 1997 through 2007, variously Tables 16, 27, and 24.
- 13 United States Department of Agriculture (USDA), Grain Inspection, Packers and Stockyards Administration (GIPSA), *Packers and Stockyards Statistical Report: 2006 Reporting Year*, May 2008, Table 26.
- 14 Based on AAFC’s 89% CR4 number and the relative size (capacity) of Cargill and Tyson plants within the Canadian system. Plant capacity data from: CanFax, *2007 Annual Report*.

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- 15 Informa Economics, *Task 5: Competitiveness of the Alberta Cattle Industry: Analytical Findings, Strategic Analysis, and Strategic Alternatives*, prepared for the Alberta Cattle Feeders Association and the Alberta Beef Producers, August 2006, p. 14.
 - 16 Retailer CR5 data is for 2005. Estimates are that current CR5 levels exceed those of 2005. Data from Mary Hendrickson and William Heffernan, *Concentration of Agricultural Markets*, April 2007, p. 4.
 - 17 Auditor General of Alberta, *Report of the Auditor General of Alberta on the Alberta Government's BSE-Related Assistance Programs*, July 27, 2004, p. 16.
 - 18 Private conversations with medium-sized independent cattle feeders. Cattle that are over a certain weight (frequently 925 pounds, carcass-weight, hanging on the rail) are often discounted by 25¢ per pound—about 18% of the total value of the animal.
 - 19 Clement E. Ward, Andrea Brocklebank, and Jared G. Carlberg, *Canadian vs. U.S. Fed Cattle Pricing and Marketing Practices and Viewpoints*, December 2006.
 - 20 For more on Canadian and US grid contract mechanisms, see:
 - Organization for Competitive Markets, *Consolidation in Agriculture and the Examination of the JBS/Swift Acquisitions*, Written Testimony of the Organization for Competitive Markets presented to the United States Senate Committee on the Judiciary Subcommittee on Antitrust, Competition Policy, and Consumer Rights, May 7, 2008, pp. 2-6.
 - Ward, Brocklebank, and Carlberg, pp. 9-10;
 - Jaime Wood, Yvonne Pratt, and Georgina Grosenick, *Canadian Cattle Industry Stakeholder Views on Current and Emergent Pricing Structures*, April 14, 2003, pp. 14-18, 28;
 - Alberta Agriculture and Rural Development, AARD website document, *Value-based Marketing of Cattle: More Than Just Carcass Quality*, [http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex3686](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex3686)
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- 42 Based on the \$107-million-dollar price put on the Lakeside Plant by Tyson in its proposed sale to XL, Canadian beef packing plants cannot be worth more than about \$400 million in total. There are approximately 50 million acres of land in pasture in Canada. Just taking that land—leaving aside farmyards, cropland for feedgrain, buildings, machinery, and actual cattle and breeding stock—cattle farmers' assets in the system may be 20 times larger than those of packers. When everything is taken into account, farmers' assets may be 30 or 40 times larger.
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- 170 Packers employ 10,000 workers (House of Commons Standing Committee on Agriculture and Agri-Food, *Canadian Livestock and Beef Pricing In The Aftermath of the BSE Crisis*, April 2004, p. 6.; and Evidence of Mr. Jim Laws, Executive Director, Canadian Meat Council, Proceedings of the Standing Senate Committee on Agriculture and Forestry, February 26, 2004); family farm cattle producers employ several times that many.
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