Canada's Farm and Food Sectors, Competition and Competitiveness, and a Path Out of the Net Farm Income Swamp

A report prepared by the National Farmers Union (NFU)
for the House of Commons Standing Committee on Agriculture

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Part 1. Confusing "competitiveness" with "competition"

In her invitation to the NFU to appear today, the Clerk summarized the Committee's interests thus:

> *The Committee will endeavour to study such topics as:*
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> - ***Competition** levels in various agricultural sectors (input, processing, retail, etc.);*
> - *Impact of **competition** (or lack thereof) on pricing, cost, and farmers' net income;*
> - *Solutions to improve **competition** and **competitiveness** in agricultural sectors (Competition Act, etc.);*
> - ***Competitive** advantages and disadvantages of Canadian farm and food products compared to foreign competitors;*
> - *Examples of specific regulations that are detrimental or beneficial to the **competitiveness** of Canadian farm products;*
> - *Solutions to improve farmers' and industries' **competitiveness**, including but not limited to improving market access, changing regulations, branding products, etc.* [emphasis added].

Such is one instance of an increasingly widespread error: failing to carefully distinguish between "competition" and "competitiveness," and, instead, treating the two as similar concepts.

Competition and competitiveness are *not* similar; in practice, they are more rightly understood as *opposites* or, at least, as trade-offs. Many of the problems created by Canadian agricultural and food policies can be traced to senior public servants misunderstanding the fundamental differences between competitiveness and competition: the former (roughly synonymous with power, bigness, and growth) is *enhanced* by mergers, corporate takeovers, and the reduction in the numbers of players; the latter, "competition," is undermined by these same developments.

Standard definitions of "competitiveness" resemble this one from Agriculture and Agri-Food Canada: "the sustained ability to profitably gain and maintain market share." One notices "…gain…market share." Such gains are a key part of the standard notion of competitiveness; growth indicates competitive success. If a small firm—one with perhaps a five percent market share—grows rapidly and gains a fifteen or twenty percent share, all will agree the firm is competitive. And as it gets even bigger, it can take on the largest firms in the world. The firm's growth simultaneously demonstrates, *and adds to*, its competitiveness. But as firms become larger and gain market share, they also become *fewer*. <u>The trend in every food and agricultural sector is toward larger, but fewer, firms</u>—toward greater competitiveness, but less competition.

As an example, XL Foods recently purchased Tyson's Brooks, Alberta beef packing plant. Thus, XL became Canada's largest packer, clearly demonstrating the company's competitiveness.

Similarly, all agree Cargill is competitive. But the end result of all this competitive growth is two-firm control of Canada's beef packing sector. Such a duopoly means low levels of competition.

The mistake, increasingly widespread, is to fail to take into account the perverse relation between "competitiveness" and "competition" and to use these words as if they denote the same, rather than opposite, phenomena. In policymaking, the danger is to fail to perceive that increases in firms' competitiveness often come welded to offsetting reductions in competition. Those reductions in competition can hurt farmers and others by exacerbating market power imbalances and increasing input costs. Thus, increases in competitiveness (read: size and power) in some links in the chain can damage the competitiveness of other links. The net result of such competitive gains at some links and competitive *losses* at others may mean an *overall loss* in competitiveness when the agri-food chain is evaluated as a whole—an overall reduction in competition *and* an overall reduction in competiveness. Because increased competitiveness so often comes packaged with the poison pill of decreased competition, much-touted competiveness gains should always be viewed warily.

Part 2. The competition deficit and its effects on Canada's agri-food sector

Note: No one should accept statistics or graphs uncritically. In presenting the following farm income analysis to the Committee, the NFU strongly urges Committee members to direct staff to duplicate these graphs. <u>The following farm income numbers and graphs are based 100% on Statistics Canada data</u>. Interpretation and manipulation has been kept to a minimum in order to maximize the confidence that Committee members will have in this analysis. The importance of these numbers is so profound that the NFU encourages members to study this data and have staff replicate or refute these results.

Over the past 24 years (1985 to 2008, inclusive), Canada's farmers produced 8/10ths of a trillion dollars in output—$802 billion, to be precise. This figure does not include government payments, only the value of farmers' sales into the marketplace. And the $802 billion figure is adjusted for inflation, i.e. farm cash receipt values from the 1980s and 1990s have been adjusted using Statistics Canada's Consumer Price Index so that they are stated consistently in dollars that are equal to a dollar's value in 2009. [See Stats. Can. "Farm Cash Receipts", Cat. No. 21-011-X]

This is fact 1: farmers have produced and sold more than $800 billion worth of farm products since 1985. Fact 2 is that, over the same period, from that $800-billion-plus of production, farmers have managed to hang on to just $3 billion in realized net farm income from the markets. Again, this figure excludes government payments—it includes only net income derived from selling products. And, again, this figure uses annual values of net income that are adjusted for inflation. (Unadjusted, the net income number is far lower—just above zero.) [See Stats. Can. "Net Farm Income", Cat. No. 21-010-X]

$3 billion in realized net income from the markets spread over 24 years is essentially nothing: just $125 million per year—$1.45 per acre of Canadian cropland per year.[*] That's what net farm income from the markets works out to in Canada: less than a buck-and-a-half per acre. Gross receipts work out to a respectable $388 per acre per year, but farmers net just $1.45.

Seen another way, over the past quarter-century, farmers have managed to hold onto just 0.4% of their total receipts in the form of net income. The transnationals that provide farm inputs and

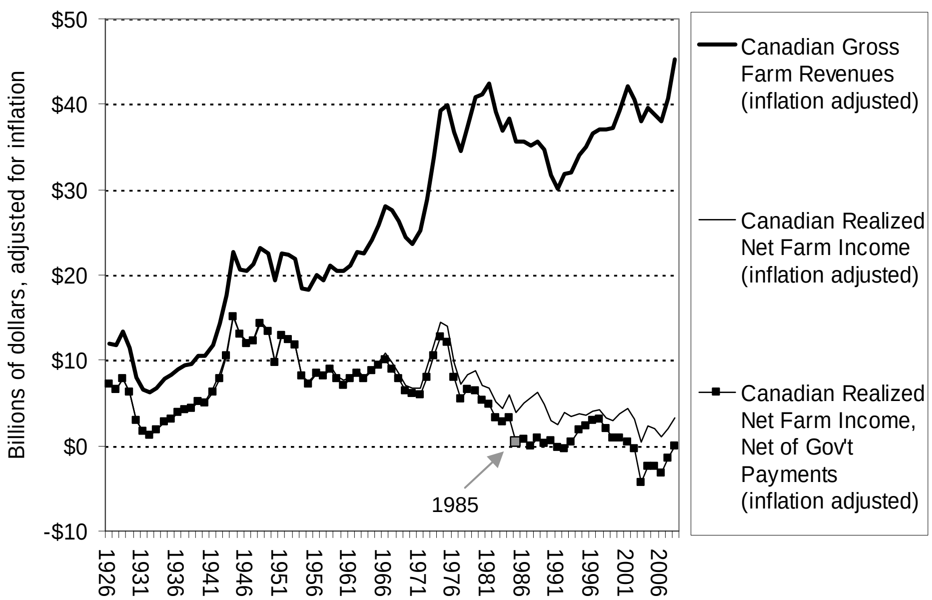
[*] The per-acre average is used advisedly. Though very low, if anything, it underestimates the problem. Supply managed sectors (eggs, poultry, and dairy) are far more likely than average to have positive net incomes. But the largest land-users—grains and oilseed farmers, for instance—are more likely than average to have zero or negative net incomes from the markets. This is true even for the largest operations. Thus, for the majority of farmers and the majority of acres, net income from the market is below the $1.45 per acre figure.

services—fertilizer and chemical companies, banks, etc.—captured the other 99.6%. These corporations—increasingly competitive, but facing decreasing levels of competition—have captured virtually all of the money produced on Canadian farms over the past generation. While farm families have been allowed to keep $1.45 per acre in the form of net income, agribusiness transnationals have pocketed a whopping $386 per acre—*266 times* the farmer's share.

The globally dominant agribusiness corporations have restructured Canadian agriculture to make themselves the primary beneficiaries of the vast wealth produced in Canadian fields, pastures, and barns. This is the most important and fundamental fact of Canadian agriculture. This is the fact policymakers and elected officials need to know. If they do not make this fact a core and foundational consideration when making agricultural and food policies, they will create misguided policies that will have unpredictable and damaging results. They will impoverish our family farmers *and* the government treasury. They will weaken and dismantle our food production capacity, even as they strive to strengthen it.

The ongoing failure of Canadian policies to take this fact into account is the reason 2009 will mark the 25th year of a nearly continuous farm income crisis. Figure 1, below, shows that 25-year crisis. Notice that, in 1985, realized net farm income from the markets (net of program payments) dipped to near zero for the first time since the Great Depression. Notice also that realized net income has stayed near zero—sometimes a bit above, sometimes below—for nearly every year since 1985.

Figure 1. Canadian gross revenue and net income: 1926-2008

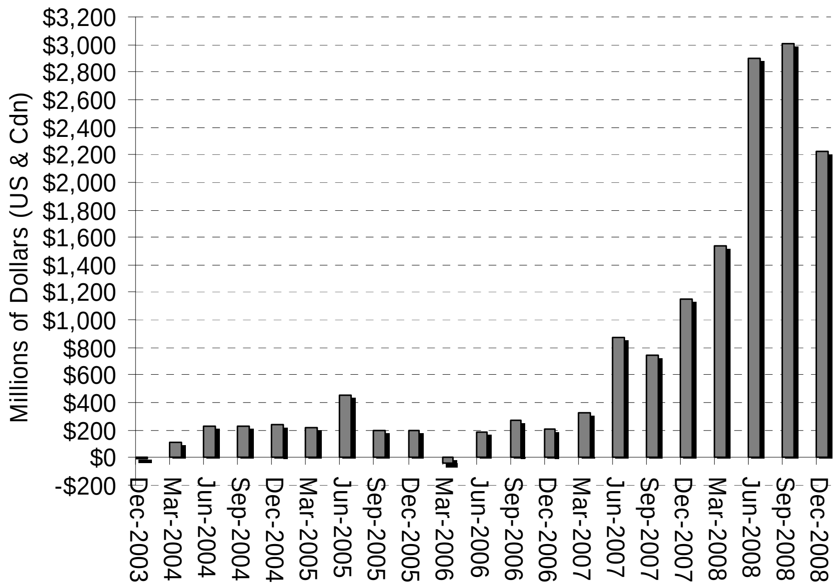


Sources: Stats. Can. "Farm Cash Receipts," Cat. No. 21-011-X; Stats. Can. "Net Farm Income," Cat. No. 21-101-X; Stats. Can. "Direct Payments to Agricultural Producers," Cat. No. 21-015-X; Stats. Can. "Agricultural Economic Statistics," Cat. No. 21-603-E; and Stats. Can. "Consumer Price Index."

Despite generating $46 billion in production and sales in 2008 (up 13% from 2007 and up 24% from 2006), Canadian farmers' realized net income from the markets in '08 was essentially zero. [Again, the NFU urges Committee members to ask their staffs to reproduce this same graph.]

Finally, notice from Figure 1 that net income levels over the past six years have been *below* Depression levels. The destructive forces underlying the farm income crisis are intensifying. Many have pointed to fertilizer and fuel makers as central causes of the deepening crisis. Such explanations are on the right track.

Figure 2. Net incomes of major fertilizer companies: 2003-2008



Sources: Corporate annual reports of The Mosaic Company, Potash Corporation of Saskatchewan Inc., Agrium Inc., Terra Industries Inc., and CF Industries Inc.

Elsewhere, the NFU has rigorously documented profit-taking by agribusiness corporations. (See, for instance, *The Farm Crisis and Corporate Profits*, *The Farm Crisis According to Agrium and AAFC*, and *The Farm Crisis and the Cattle Sector*.) This report will not go over that ground. The figures above speak for themselves: for each dollar in net income farmers keep for themselves, they must give $266 to the dominant agribusiness companies. If those corporations could limit themselves to, say, $250 (a 6% decrease), farmers' net incomes could increase 16-fold.

This report will add just one graph to the mountains of evidence of corporate profit-reaping. Figure 2, above, shows fertilizer companies' quarterly profits (net earnings) during 2008, and in previous years. It sums the profits of Mosaic, Agrium, Terra, Potash Corporation, and CF Industries—five of North America's largest fertilizer producers. Profits were recorded in the currency each company reports in—US or Canadian dollars. Because of shifting currency values, exact profit levels should be treated with caution, but the overall shape of the graph—a 20-fold increase in profits—reflects reality perfectly.

In late-2007 and through much of 2008, grain farmers enjoyed a dramatic but fleeting spike in prices. 2008, however, also saw dramatic increases in farm input prices—fuel, fertilizer, seeds, equipment, etc. Fertilizer companies boast to shareholder that their market power allows them to increase prices whenever farmers' prices increase. "Nitrogen prices follow grain prices," according to top-five fertilizer maker Agrium. "Fertilizer prices linked to grain prices," according to Yara, self-described as "the world's largest fertilizer company." (See *The Farm Crisis According to Agrium and AAFC*.) That pricing power—little restrained by competition but wielded by the world's most competitive fertilizer companies—is the number one reason farmers keep 0.4% of their total receipts and agribusiness transnationals take 99.6%. The farm income crisis is caused by agribusiness market power—pricing power unrestrained by competition. Competitiveness really isn't relevant. That is to say, it is probable that increased competitiveness (read: bigger and fewer players and less competition) will lower, not raise, net farm income, nor will it have positive effects on grocery store prices or processing plant wages.

Part 3. Solutions

The solution to the farm income crisis is simple: Canadian federal and provincial legislation, policies, and regulations must cease strengthening the most powerful and profitable in the system and instead rebalance the strength and profitability of farmers relative to these agribusiness giants. We must curb, not fortify, the capacities of the dominant global transnationals to capture and export the wealth produced on our soil and by our communities. Several policies immediately present themselves:

1. Stop adding to the competition deficit; block non-essential mergers and takeovers

Cargill's takeover of Better Beef moved Canada from four major packers to three, and caused Ontario, the site of Better Beef's plant, to become the "lowest price region in North America" (George Morris Centre). Not learning from its mistake, the Competition Bureau approved XL Foods' purchase of Tyson's Alberta plant, making XL Canada's largest packer and giving two firms—XL and Cargill—a 95%+ market share for Canadian finished cattle slaughter. Weeks after the Bureau approved the deal, XL closed its Moose Jaw plant—the only significant plant between Alberta and Ontario. The Canadian Cattlemen's Association (CCA) says that closure may be permanent, and its research arm, Canfax, says that "the closure will lower prices for both fed and non-fed cattle" and that "we're reducing capacity and the plants don't have to go out there and be quite as aggressive on their bids to procure cattle." (*Western Producer*, April 30, p. 3) Thus, weeks after approval of the competition-stunting XL/Tyson deal, XL took steps that lowered farmers' prices. That XL is perhaps now "more competitive" is irrelevant.

Mergers and acquisitions have reduced competition in every agribusiness sector. Farmers have fewer companies to buy tractors from (CNH has absorbed tractor makers Ford, Case, International Harvester, and Steiger) and fewer companies to sell grain to (Viterra is the amalgamation of Sask. Wheat Pool, United Grain Growers, Manitoba Pool Elevators, and Alberta Pool). Monsanto, Syngenta, and Bayer have bought up dozens of seed, chemical, and gene technology companies, concentrating control and creating "life science" giants. Agrium, CF Industries, and Terra Industries have proposed mergers that would further concentrate the fertilizer sector. The list of examples goes on, and touches every link in the agri-food chain. The number of companies at every link is contracting, competition is declining, and companies' power to extract billions from farmers and taxpayers is increasing. Unchecked, this shift will deepen an already excruciating farm income crisis.

The NFU recommends that Canadian MPs alter the powers, path, and mandate of the Competition Bureau. The Bureau is accomplice to the liquidation of competition in virtually every agribusiness sector. Legislators must immediately move to stop merger and takeover approvals and to create a new mandate for the Bureau wherein it approves agribusiness mergers only if such new business structures can be shown to yield measurable net income benefits for farmers and to the Canadian economy as a whole. Vague talk of "efficiencies" and "competiveness" cannot justify competition-destroying mergers.

The NFU does not underestimate the difficulty of moving in such a direction. The alternative, however, is the destruction of the family farm sector, or its perpetual support by taxpayers—a support that will soon top $100 billion in aggregate payments since 1980. Though countering corporate giantism will lead to difficulties, sacrificing our family farm food production capacity, on the one hand, or supporting that capacity through payments totalling tens-of-billions of dollars, on the other, will also create difficulties, to say the least.

2. Ban captive supply

If the Government of Canada wishes to do something to help restore competition and increase farm families' incomes, the best, fastest, cheapest, and most effective thing it can do is to ban beef packers' use of captive supplies.

Captive supply is a technique wherein beef packing companies use cattle herds they own (or cattle they control through contracts that omit fixed prices) to suppress prices to independent sellers. Captive supplies allow large buyers to stop bidding in cash markets any time prices rise above levels they choose to pay. Nearly every study on the issue confirms that captive supply lowers prices for ranchers and farmers. US academics studying Canadian markets found that one-half to two-thirds of the cattle entering our biggest packing plants are packers' own captive supplies.

US Senators from major cattle-producing states recently introduced legislation, the *Livestock Marketing Fairness Act,* to ban captive supply contracts and restore the proper functioning of cattle markets. US President Obama has made a ban on captive supply a priority. In point 2 of his concise rural agenda, Obama commits to "Pass a packer ban," explaining that "When meatpackers own livestock they can manipulate prices and discriminate against independent farmers."

The NFU recommends that Canadian MPs pass legislation outlawing captive supply. In so doing, they will move in step with all-party efforts in the US. We have an integrated North American market. Meat packing companies, on both sides of the border, must be prevented from using captive supply herds, or captive supply contracts, to manipulate prices paid to independent sellers.

3. Curb, do not expand, the intellectual property rights powers of life science corporations

Farmers' rights to save and re-use seeds are under sustained attack. Recent proposals and initiatives in Canada to tighten Plant Breeders Rights (PBR) legislation (moving from a *PBR Act* based on the UPOV 1978 convention to one based on UPOV 1991); to cut funding for research and variety development and turn the seed sector increasingly over to private companies; to increase patenting of genes; and recent moves by Canadian Food Inspection Agency to change the way seeds varieties are registered all diminish farmers' abilities to save and re-use seeds. In so doing, these changes increase the power of the corporations that dominate the seed, gene, and chemical sectors—increasingly a single sector. As government actions increase the intellectual property rights powers of life science corps, those actions increase the capacities of those companies to extract dollars from farmers' pockets. When government gives seed companies increasingly sharp-edged tools with which to collect royalties, tech use fees, and higher seed prices, government enriches these companies at the expense of farmers. Those who argue the opposite—that new seeds and gene technologies enrich farmers—must explain the current net farm income situation of less than $1.50 per acre. If Monsanto's and Syngenta's genes are creating a windfall for farmers, the question then becomes: Who's making off with that windfall?

The NFU recommends that MPs undertake a suite of reforms to ensure that farmers can save and reuse seeds, and that farmers have available low-cost, state-of-the-art varieties. Necessary moves include:

- Dramatically increasing funding for public breeding programs;
- Renewing and expanding Canada's excellent system of publicly-funded plant breeding and variety development, and ensuring that breeding and development be carried out by public servant researchers and academics in publicly-owned research stations and universities;
- Enshrining, in legislation, farmers' rights to save, reuse, exchange, and sell seeds;

- Reversing steps underway to changes to our variety registration system—changes that can accelerate the introduction of genetically modified, gene-patented seeds; and
- Enacting a system of reviews and controls on variety <u>de</u>registration, to prevent companies from forcing farmers onto a seed variety treadmill.

4. Support a strong Canadian Grain Commission

The CGC is farmers' watchdog in the grain handling system. Trained, independent CGC inspectors go where farmers cannot, to ensure the system runs smoothly and farmers are paid fairly.

Further, the CGC oversees a system of bonds that ensure that farmers get paid. As we watch banks and car companies dissolve financially, CGC bonding is more important than ever.

Finally, CGC inspectors protect human health by ensuring that treated seed, excrement, broken glass, moulds, and other health risks are kept out of our foodgrain supply. And the CGC protects Canada's vital reputation for quality—a reputation that puts hundreds-of-millions of additional dollars into the Canadian farm economy each year.

The *Canada Grain Act* is based on the well-founded and historically-demonstrated idea that there is significant potential for grain companies to deal unfairly farmers—to set scales and meters in the companies' favour, to shave a percent here and half-a-tonne there. The *Act* contains a clear mandate for the CGC: to administer the grain system "*in the interests of the grain producers*, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets [Emphasis added]." Recent bills introduced to change the CGC begin by altering that mandate—weakening and dismantling the Commissions farmer-protection role.

Dismantling the CGC is folly—the biggest and most profitable companies in the system would get the benefits, farmers would get the costs and risks, and citizens would see their food-safety system further undermined.

The NFU recommends that MPs cease advancing bills such as C-13 or its predecessor C-39, and the NFU commends MPs who worked to sideline those damaging bills. In the future, MPs should look for ways to rebuild and strengthen the CGC, including:

- Requiring compulsory annual CGC testing and certification of protein testers;
- Requiring compulsory annual testing and certification of elevator weigh scales;
- Restoring to full functioning and autonomy the CGC positions of Assistant Commissioners;
- Auditing all grain company charges to farmers and ensuring that charges for cleaning and drying are for services actually undertaken, and ensuring that deductions in the name of the CGC match the amounts actually paid to the CGC;
- Extending the length of time grain companies are required to retain samples so that farmers have more time to take recourse to CGC grain and dockage determination; and
- Strengthening the CGC's mandate to act "in the interests of the grain producers."

As grain companies get bigger, as elevators become more distant, as the relations between farmers and grain companies grow ever more unequal, as the margins in farming shrink and the stakes rise, farmers need the CGC—a firm and fair referee—more than ever. Weakening the rules and sacking the referee can only advantage the biggest and strongest at the expense of the weakest.

5. Strengthen and expand the Canadian Wheat Board

As noted above, the rise in the power (and the contraction in the number) of agribusiness corporations beginning in the 1980s and accelerating into this decade have positioned those companies to capture virtually all (99.6%) of the wealth generated on Canadian farms. This is an incontrovertible, verifiable, easily-reproducible conclusion. It is not controversial if one looks at the clear, Government of Canada data. Thus, it puzzles farmers when some advocate dismantling farmers' marketing agency, the CWB, and handing the Canadian wheat and malt barley trade, and farmers, over to the dominant grain companies—a subspecies of the agribusiness transnationals who are profit-taking so aggressively at the expense of farmers.

The NFU recommends that MPs side with the vast majority of farmers who support a strong, effective CWB. The CWB is built upon three pillars: single-desk selling, price pooling, and government-guaranteed borrowing. MPs must defend the CWB and its three pillars against attacks at home—ill-conceived legislation—and abroad—World Trade Organization agreement language that would illegitimately meddle in Canadian grain marketing and cripple farmers' marketing agency.

6. Shift Canadian food and agriculture policies toward a basis of Food Sovereignty

Farmers get to keep one dollar, agribusiness makes off with $266. Farmers keep $3 billion, agribusiness makes off with $799 billion. Such is the mathematic of our current agriculture policy.

It is this way because the strongest in our economy have escaped discipline. For an economy to work, the most powerful must be disciplined either by regulation (the power of the state) or by competition (the power of equally large competitors to take away markets if one firm becomes too greedy). In our system, both forms of discipline have been extinguished—the former as a result of government actions and ideology, and the latter as a result of corporate duplicity and self-interest. Thus, the most powerful are free to make themselves the most profitable, to assert their financial power unchecked, and to feast upon farmers and the public treasury. Ours is a system wherein the powerful take.

This isn't the way a rational country structures its food and agriculture systems—systemically weakening its citizen food producers for the benefit of foreign shareholders and corporations. In a very real sense, our food and agricultural policies are crazy.

A rational food policy would take as a first priority the economic health of its food producers, and the financial, social, resource, and environmental sustainability of the farms and communities that feed the nation. Such a nation would seek trade policies that do not sacrifice its own farmers, or farmers elsewhere, to the false economy of maximizing cross-border food movement.

Food Sovereignty is a rational alternative to our current global food policy framework. Food Sovereignty focuses on maximizing the profitability, diversity, sustainability, democracy, and fairness of food systems and their effectiveness in actually feeding people and communities—locally, regionally, and globally. It does so by taking seriously the needs of local producers, landscapes, and communities and democratically empowering people to shape the food systems that will serve them best. It allows trade, but puts it in a secondary or tertiary position, not as a top priority as does the current WTO model. Trade is returned to its proper category: means, not end. And food production is seen, first, as a way of feeding peoples and cultures, and only secondarily as a commodity for speculation, trade, and profit.

The NFU recommends that MPs work to re-base Canadian food and agricultural policies on Food Sovereignty. A growing global movement of hundreds-of-millions of food producers in dozens of nations—the Via Campesina—is working to enlarge and deepen our understanding of what Food Sovereignty will look like when applied uniquely to each nation around the world. The NFU and other organizations in North America are working democratically with thousands of families who work the land, and with urban families who rely on that food, to flesh out the principles of Food Sovereignty into a whole and effective food policy for this continent and its many diverse regions and locales. The NFU invites Agriculture and Agri-Food Canada and the members of the House of Commons Committee on Agriculture to become part of this project of recreating people- and community-centred food policies that nurture farms, families, ecosystems, and economies.

Pursuing Food Sovereignty re-empowers farmers and local communities. In so doing, it restores Canadian farmers' capacities to hold onto a fair and adequate portion of the hundreds-of-billions-of-dollars worth of food they produce. Doing this will end the family farm income crisis. Continuing down the current path will end the family farm.

These analyses and recommendations respectfully advanced by the thousands of farm families who voluntarily make up the National Farmers Union.