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National Farmers Union submission to
The House of Commons Standing Committee on Agriculture and Agri-food study on
Canada's agricultural and agri-food supply chain.

From Fragile Supply Chains to Resilient Interdependent Networks

Canada's ongoing supply chain issues have become even more severe since this study was initiated on January 25, 2022. Then, pandemic-related disruptions were top of mind. On January 31 the "freedom convoy" began its occupation of Ottawa, with related border crossing blockages over the following weeks. Only a few days after the streets of Ottawa were cleared, Russia invaded Ukraine.

The opening months of 2022 have shown that the biggest threat to agricultural supply chains are social unrest and conflict. 2020 highlighted the impacts of health. 2021 highlighted the impacts of climate change. But our agricultural supply chain issues go back even farther. They are rooted in decades of policy that has made our system increasingly brittle. The remedy is to design agricultural and trade policy to promote resilience and stability instead.

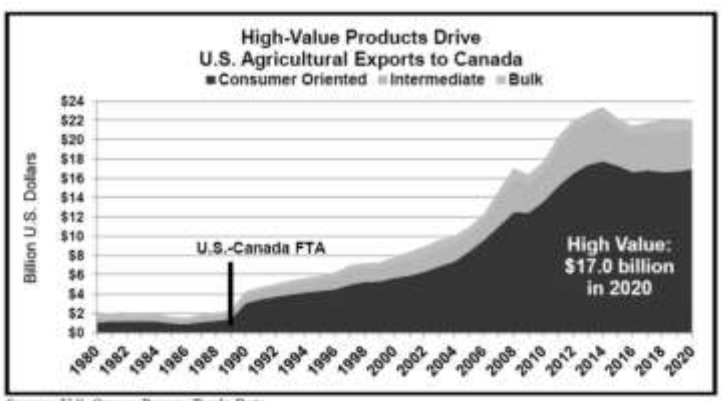
In the name of efficiency, and in pursuit of ambitious export targets, Canada's agriculture and trade policies have supported multinational companies' strategies of global sourcing and "just-in-time" delivery, allowing them to increase their own profit margins and market shares. The result is our food and agriculture system is now dependent on long, complicated supply chains – with weak links creating vulnerabilities both upstream and downstream. As global corporations seek to lower costs, they add unnecessary transportation by locating production, processing and packaging in different countries to take advantage of low raw ingredient prices, low wages, lax regulatory requirements, and to avoid taxation. While total costs may be lower for the company, the real-world costs are high, and include environmental degradation and economic disparity, further weakening each link in the supply chain and contributing to conflict.

Vertical integration, financialization, and expansion through merger and acquisition are strategies corporations have used to increase market share and profitability in a globalized food system. The result is there is little competition among the in the giants in the marketplace from the perspective of Canadian farmers who deal with multinational corporations. Corporate concentration in all major sectors means a few companies have enough market power to gain undue influence over the prices they pay to suppliers and the prices they charge to buyers.

By 2018, just six companies sold 78% of the world's agrochemical inputs; six companies had over 51% of farm equipment market; and four companies sold nearly 60% of the world's veterinary drugs. The world's biggest agricultural commodity traders like Cargill and COFCO (China National Cereals, Oils and Foodstuffs) not only buy and sell commodities like grain and oilseeds, they are involved in processing and transportation, and control much of the world's critical food system infrastructure. Within Canada, just two of the world's biggest multinational companies, Cargill and Brazil's JBS, process nearly all federally inspected beef. Our retail grocery sector is dominated by just 5 companies, with two of them – Walmart and Costco – the largest and sixth-largest in the world. In addition to their gigantic size, many of these global corporations are intertwined with each other through cross-sectoral agreements and partnerships among their subsidiaries.[1] When the top four companies in a sector control over 40% of the market, they are able to operate in a monopolistic way.

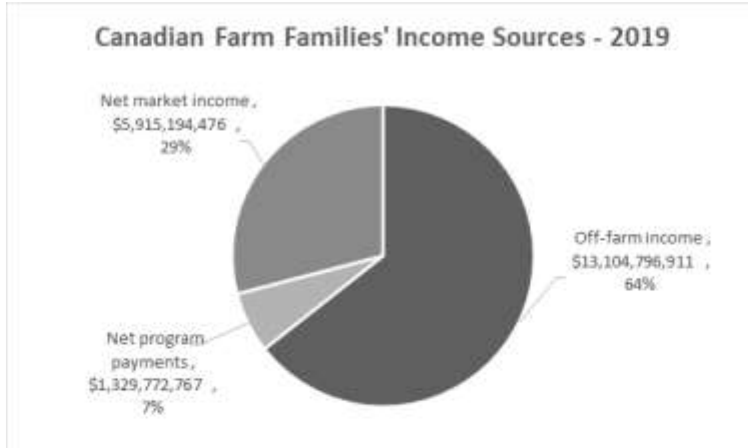
We are now in a situation where global supply chains have become precarious and the ability of monopolistic corporations to extract value upstream from producers and workers and downstream from consumers has boomed. As a result, our present supply chain difficulties are based in both logistical and infrastructure failures and economic exploitation of the vulnerable.

Historically Canada's agricultural economy has operated in both export and domestic markets. Over the past several decades the balance between the two has become skewed. Canada has set ambitious goals to increase agricultural exports, and when reached, each goal is quickly replaced by an even more ambitious target. At the same time, our reliance on imports has increased. Our agricultural exports are low-priced bulk commodities, while our imports are high value fresh and processed foods. The graph below, from the USDA, shows how the FTA, NAFTA and now CUSMA, have promoted imports of high value food from the USA. There has been a corresponding loss of perishable food production and processing within Canada. Every dollar spent on imported food is a dollar that cannot contribute to the incomes of Canadian farmers and food workers.



Source: U.S. Census Bureau Trade Data

As farmers, we are price-takers – we have limited options regarding the price of the commodities we sell or the inputs we buy. Farmers are caught in a cost-price squeeze, with over 90% of revenues required to cover production costs in most years.[2] In January 2022, Statistics Canada reported that farm families continue to depend on off-farm sources for nearly 2/3 of their family's income.[3] Furthermore, farm income includes program payment money, so income from the market averages less than one-third of farm family incomes. Farm families are subsidizing the system with their off-farm jobs. When agricultural supply chains break down, farmers bear the brunt of the costs. For rural people, the supply chain is a one-way street, where the results of their work and the value of their crops and livestock disappear into the bank accounts of distant multinational companies. It is not surprising that so many feel left behind. Increasing economic disparity leads to social instability and disempowerment.



Source: Statistics Canada. Table 32-10-0213-01 Total income of farm families by source of income

A case in point is fertilizer. Companies charging exorbitant prices blame supply chain issues, yet these same companies are making huge windfall profits. In their 2021 annual report, Nutrien, Canada's largest fertilizer producer, notes "record financial results" and reports fourth quarter net earnings nearly four times higher than a year ago.[4] CF Industries, the second largest producer, reports fourth quarter net earnings nearly eight times higher than a year ago.[5] Yara International, also with significant Canadian production capacity, reports that for its operations in the Americas, "EBITDA [Earnings before interest, taxes, depreciation and amortization] excluding special items was 160% higher than a year earlier, as *increased nitrogen prices more than offset higher energy costs*..." [emphasis added].[6] In many cases, the companies posted these higher net returns on lower production and sales volumes.

The same story is repeated in the annual reports of commodity traders[7], seed and agro-chemical corporations[8], oil and gas companies[9], railways[10], banks[11] and pharmaceutical[12] companies. All have experienced supply chain disruptions related to the pandemic and climate change, yet have still been able to increase their own profitability. Russia's invasion of Ukraine, Canada's tariffs on Russian imports, and shipping disruptions will cause further impacts. Canada must ensure that multinational companies do not use the war to take further advantage of farmers, workers and consumers.

Resolving supply chain vulnerabilities requires planning to prioritize resilience and stability instead of putting all our policy eggs in the export maximization basket.

The Canadian philosopher Ursula Franklin discusses the differences between planning to maximize gain versus planning to minimize disaster. She notes that planning to maximize gain assumes there is a high degree of control over the parameters relevant to the plan, along with confidence in the accuracy of their predictions about the future; planners seek to maximize efficiency and effectiveness, and those with the power to plan exclude from decision-making those who are subject to the plan. In contrast, planning to minimize disaster involves a profound recognition of context, understanding that every response evokes a counter-response which changes the context which in turn must be taken into account when taking the next step. Planning to minimize disaster keeps those planned for and about within the planning process, respecting their knowledge and judgement about the situation. Planning to minimize disaster is participatory and democratic.

> The common theme that runs through many disaster minimizing endeavours is the conviction that ordinary people matter – in the way Schumacher meant when he called his book *Small is Beautiful: Economics as if People Mattered*. – Ursula Franklin, The Real World of Technology, 1999, page 84

Our beef sector provides a good opportunity for the federal government to put needed limits on the world's largest corporations' ability to maximize their own gain at the expense of our farmers and consumers, and start building a more resilient, inclusive and equitable framework that will be less susceptible to supply chain disruption.

In 1988 there were 119 federally inspected beef packing plants in Canada, all were 100% Canadian owned, and the 4 largest beef plants killed 35% of Canada's cattle[13]. Now just two companies, the Brazilian multinational JBS and the US-based conglomerate Cargill, slaughter over 95 percent of our cattle. They failed to prevent Covid outbreaks and deaths at their plants; cattle prices remain low while grocery beef prices keep going up.

Meanwhile, there is a severe shortage of provincially licensed slaughter facilities all across Canada. In 2021 the monthly beef slaughter at federally inspected plants ranged from 237,270 to 322,254 head while provincially licensed abattoirs killed from 14,556 to 18,233 head[14]. The lack of abattoir capacity has created a bottleneck, preventing farmers from fully serving their potential local markets, and preventing consumers from obtaining the meat they want from local farmers. There is a net loss of value in the Canadian economy due to this mis-match.

Source: Source: Canadian Food Inspection Agency and Provincial Governments, Compiled by Agriculture and Agri-Food Canada, Animal Industry Division, Market Information Section

A network of smaller abattoirs under diversified ownership and located throughout Canada available to serve producers in every region, coupled with regenerative cattle production practices, would provide both food system resilience and rural jobs as well as climate mitigation and adaptation benefits. Banning captive supply and legislating caps on packing plant revenues would stop JBS and Cargill from taking unfair advantage of farmers and consumers.

The federal government needs to work with provincial governments to develop domestic markets and localized distribution systems with direct, fair and transparent distribution networks to ensure a higher proportion of the food on Canadian tables is high-value food produced by Canadian ranchers and farmers.

Federal agriculture policy needs to build in democratic governance, safety valves and surge capacity so that, in our current and emerging context of intersecting crises, disruptions are manageable challenges instead of full-scale disaster. True solutions will rebalance power and bring greater fairness and equity into our food and farming system and will mitigate greenhouse gas emissions while implementing adaptation measures. Taking this approach will not only increase Canada's food security and improve farm incomes, it will contribute to a more peaceful and just society.

The federal government can do this by providing the program, policy and regulatory support needed to develop and sustain our domestic market, creating broader and more diverse supply networks while retaining more of our high-value-food dollars within Canada.

RECOMMENDATIONS:

- Shorten supply chains by developing and supporting infrastructure needed for a thriving domestic market;
- Create webs of interrelated production, processing, storage and distribution facilities to increase resilience within the food system by providing multiple pathways exist to meet our needs;
- Use regulatory tools to rebalance power between large corporations and Canadians – farmers, workers, consumers;
- Ensure regulators operate in the public interest to regain public trust and support well-being of Canadians;
- Maintain, create and support institutions that provide stability, such as supply management and single desk marketing, to ensure there is capacity to plan and manage unexpected circumstances;
- Build strong 21st century public institutions to lead farm and food system emissions reduction and climate adaptation. A Canadian Farm Resilience Agency (CFRA) could coordinate efforts to reduce emissions in agriculture and help farmers adapt to climate change impacts.

All of this respectfully submitted by
The National Farmers Union
March 2022

The National Farmers Union is a voluntary direct-membership, non-partisan, national farm organization made up of thousands of farm families from across Canada. Founded in 1969, the NFU advocates for policies that promote the dignity, prosperity and sustainable future of farmers, farm families and their communities.

[1] *Plate Tech-tonics: Mapping Corporate Power in Big Food*, ETC Group, November 2019 https://etcgroup.org/sites/www.etcgroup.org/files/files/etc_platetechtonics_a4_nov2019_web.pdf

[2] Net farm income (x 1,000), Statistics Canada. Table 32-10-0052-01 https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3210005201

[3] *The Daily*, Statistics Canada Total income of farm families, 2019 https://www150.statcan.gc.ca/n1/daily-quotidien/220128/dq220128c-eng.htm Released: 2022-01-28

[4] Nutrien, "Q4 2021 Results Presentation," Feb. 16, 2022, https://nutrien-prod-asset.s3.us-east-2.amazonaws.com/s3fs-public/2022-02/Nutrien%20Q4%202021%20Presentation%202022-02-16%20FINAL_2.pdf

[5] CF Industries, "CF Industries Holdings, Inc. Reports Full Year 2021 Net Earnings of $917 Million, Adjusted EBITDA of $2.74 Billion," Company Release, Feb. 15, 2022, https://cfindustries.q4ir.com/news-market-information/press-releases/news-details/2022/CF-Industries-Holdings-Inc.-Reports-Full-Year-2021-Net-Earnings-of-917-Million-Adjusted-EBITDA-of-2.74-Billion/default.aspx

[6] Yara International, "Yara Fourth-Quarter Report 2021," https://ml-eu.globenewswire.com/Resource/Download/9d271a64-fb0a-46c1-8729-7ec5f3bc88f0

[7] Cargill is a privately held company that is not required to publish its financial information. In 2021 Cargill's revenues increased to USD $134.4 billion from USD $115.4 billion the year before. https://www.statista.com/statistics/274778/revenue-and-profit-of-cargill-agricultural-company/

[8] BASF EBITDA nearly doubled from 6.494 billion Euros in 2020 to 11.355 billion Euros in 2021. BASF Annual Report 2021, page 59. https://www.basf.com/global/documents/en/news-and-media/publications/reports/2022/BASF_Report_2021.pdf

[9] The Canadian petroleum company Enbridge's EBITDA was CDN$ 14.236 billion in 2021, up from CND$10.692 billion the previous year. Enbridge Inc. Management's Discussion and Analysis, December 31, 2021, retrieved from SEDAR.com database

[10] Canadian Pacific Railway Ltd. EBITDA increased to CDN $4.3 billion in 2021. Source: CP Annual Report 2021, retrieved from SEDAR.com database

[11] The Royal Bank of Canada's total comprehensive income in 2021 was CDN $17.506 billion, up from CDN $10.302 billion in 2020. Royal Bank of Canada Annual Report 2021, page 135, retrieved from SEDAR.com database.

[12] Pharmaceutical company, Elanco's 2021 EBITDA was $1.057 billion, doubling its 2020 performance. Q4 and Full Year Results, Earnings Presentation, Page 14. https://s1.q4cdn.com/466533431/files/doc_financials/2021/q4/Q4-2021_Earnings-Slides_vF.pdf

[13] George Morris Centre, Evolution of the North American Beef Industry, November 2004, p. 13

[14] Red meat and livestock slaughter and carcass weights, Agriculture and Agrifood Canada. https://agriculture.canada.ca/en/canadas-agriculture-sectors/animal-industry/red-meat-and-livestock-market-information/slaughter-and-carcass-weights?menupos=01.03.04.18