



# Saskatchewan



# Notes

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## Living in a Sea of Cheap Grain: The corporate conversion of Saskatchewan's hog production policy

— *by Cathy Holtzlander*

In 1976 there were 12,000 Saskatchewan farms that produced hogs. In 1996 there were approximately 2,200 hog farms, roughly 200 of which sold over 1,000 pigs each. Now, Saskatchewan's hog industry is dominated by 4 major hog producers: Big Sky, Community Pork Ventures (formerly the Quadra Group), Heartland and Stomp Farms, that all use the confinement feeding, liquid-manure production system which poses considerable environmental and health risks. Heartland and Big Sky are the 7th and 8th largest pork producers in Canada, with 18,000 and 23,500 sows respectively. Community Pork Ventures has 13,000 sows on 18 sites. The Stomp farm houses 9,000 sows. Saskatchewan's smaller independent operators, on the other hand, have lost ground, and now function as residual suppliers to supplement the "vertically integrated"\* system.

These dramatic changes to hog farming in Saskatchewan were not accidental or the outcome of natural evolution, but the result of a combination of government policy, corporate strategies and pressure on the industry due to environmental concerns and disease problems in other parts of the world.

Florian Possberg, CEO of Big Sky Farms Inc. says: "We live in a sea of cheap feed grain. This area should be a natural for expanding the industry". AgriVision 2000, a "think tank" funded by Sask Ag and Food, the Royal Bank, Mitchell's Gourmet Foods, Big Sky Farms and others, agrees, and calls

for Saskatchewan to increase production ten-fold to 10 million hogs by 2008. How, why and for whose benefit is this massive expansion and industrialization of livestock production taking place?

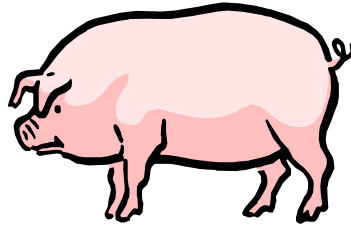
### The building blocks

When the Crow Benefit, the statutory freight rate for prairie grain transportation, was abolished by the federal government in 1995, the Saskatchewan government began looking for new ways to structure the agriculture sector. In 1994, anticipating the loss of the Crow, Saskatchewan's Agriculture Minister Darryl Cunningham saw expanding the livestock sector as a good strategy for adding value to low-priced feed grains.

A series of building blocks for expanding the intensive hog industry in Saskatchewan were designed and then implemented. In 1995 Saskatchewan passed its "right to farm" legislation, The Agricultural Operations Act, to protect intensive livestock operations from "nuisance suits". This Act also effectively moved jurisdiction over pollution from intensive livestock operations (ILOs) from the Environment department to the Agriculture department.

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In 1997 Agriculture Minister Eric Upshall imposed an end to the "single desk"\*\*\* hog selling system which was a mechanism to ensure all farmers could sell their hogs to, and packers would buy hogs as needed from, the central agency. This democratically-controlled, producer-run hog marketing system was dismantled in order to permit direct contracting between the packer and producer. This change in hog marketing was necessary to allow the meat processors to control price and supply of their primary input. Direct contracting between packing plants and the largest hog producers made pricing and market access for small producers much less reliable, to the extent that many were forced out of production altogether.



A 1996 federal government report identified the Saskatchewan Farm Security Act as an impediment to industrial scale hog barn expansion. The Act's rules made it more difficult for people who don't live in the province to own more than 10 acres of farmland. But this barrier to hog barn expansion was recently eliminated when the current government amended the Act to open up ownership to Canadian non-resident individuals, co-operatives and corporations on the same basis as Saskatchewan residents. This amendment may well open the door to a successful NAFTA Chapter 11 challenge of the Act, which would mean that US agri-business corporations would be able to buy farmland on the same basis as Canadian citizens.

Thus the stage was set for expansion of ILOs in Saskatchewan. Yet, apparently the advantages gained as a result of these structural changes were not quite enough. The biggest hog industry players were given even more help from our government.

## The money trail

Florian Possberg's success as CEO of Big Sky Farms Inc. can be attributed to his skill as a farmer and entrepreneurial spirit. Well, perhaps, but he also has friends in high places and plenty of help from taxpayers. The Saskatchewan government has ownership or control over 75% of the equity in Big Sky Farms Inc. through the Crown Investments Corporation, the Saskatchewan Government Growth Fund, and Crown Life. Florian Possberg actually owns less than 5 per cent of the company.

LuAnn Mitchell, heir to the Mendel family's meatpacking dynasty, was in charge of Mitchell's Gourmet Foods Inc., the 17th largest business in the province, until November 2002 when she sold her shares. Well, that is somewhat open to question. She actually sold control of the company in April 1999, less than a year after the death of her husband, Fred Mitchell, to the Schneider Corporation, the Ontario-based meat packing company which was already majority owned by Smithfield Foods Inc. of Virginia. The sale agreement included a timeline and process that guaranteed that Smithfield, via Schneider, would own all the shares in Mitchell's by 2007. By the end of 1999 Smithfield Foods was highlighting its Schneider and Mitchell's purchases as success stories in its corporate strategy of expanding market share by acquiring "under-priced private brands".

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*Over the past decade, the livestock industry in Saskatchewan has been converted from being part of a truly diversified on-farm production system where the farmers made the decisions and lived with the consequences, to becoming a heavily subsidized, corporate/government controlled industrial system.*

Big Sky Farms and Mitchell's are closely linked, too. In 1997 Big Sky contracted to sell 85% of its production to Mitchell's Gourmet Foods. In return, Mitchell's invested \$5 million in Big Sky to build the controversial 2,500-sow (60,000 market hog production) operation at Kelvington. In 2000 the Saskatchewan government invested \$15 million, plus \$8 million from Crown Life in Big Sky to build two 5,000 sow operations (120,000 market hogs each per year) at Rama and at Ogema. Smithfield clearly aims to reduce its risk by controlling as much of the hog supply as possible, and its relationship with Big Sky certainly achieves this for the company in Saskatchewan.

Now, we are experiencing a major collapse in the price of hogs. Increased costs have lowered returns to about \$65 below cost on almost 2 million hogs, which works out to a revenue shortfall in the neighborhood of \$130 million. Our provincial government's whole-hearted commitment to industrial hog production means that huge sums of public money are being diverted in order to protect these massive hog barn investments instead of being used to support other more environmentally, socially and economically sound priorities.

### Policy alternatives

You may be able to get more money for your grain by feeding it to a pig first, but you have to own the pig to make the buck. "Value-added" industries that use grain as an input depend on low grain prices for their profitability. Farmers are not getting rich selling cheap barley to the hog barns. The combined political influence and market power of the industrial livestock sector and the

availability of cheap American corn in western Canada will exacerbate downward pressure on Saskatchewan grain prices.

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made the decisions and lived with the consequences, to becoming a heavily subsidized, corporate/government controlled industrial system that depends upon keeping grain prices and packing plant wages low and having access to cheap land and lax enforcement of environmental regulations. Farmers, workers, taxpayers and the land are paying the price while absentee landlords and investors cash in.

Somehow we seem to have bought the idea that the family farm is passé, that rural communities are good places to leave, and that we are too poor and too backward to solve our own problems. Farmers should just get a job and move to the city while we all look to the corporate sector for salvation. There is no other choice.

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Yet, in other places people are making a rural economy work and are integrating livestock into an economically, environmentally and socially sound framework. Many states and counties in the USA have passed anti-corporate farming laws, or laws that prohibit meat packers from owning lives-tock. Sweden outlawed routine use of antibiotics for hogs, and has since built its hog sector with profitable small to medium scale operations using practices that support animal health. The European Union is promoting organic agriculture as part of its policy to support the "multi-functionality" of agriculture. There truly are choices.

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Here in Saskatchewan during the big price crash of 1998 and 1999, family farmers and independent butchers joined with inner city consumers to set up Pork Links. Farmers sold hogs for more than they'd receive from the packers, the butchers got a fair price for their skill and labour and city folks bought their pork for less than they'd pay at the grocery store. If this can be done on a small scale in response to a crisis situation, it can surely be done at a policy level too.

Why not have a livestock policy that focuses on quality by developing markets based on certified humane and environmentally sound production standards on family farms? Why not set up inter-generational transition programs to bring young farmers into mixed farming, using their own livestock herds as a means to offset low grain prices as is being done in rural Nebraska?

on Saskatchewan's long tradition of co-operatives and set up farmer-owned community-based livestock enterprises along the lines of Missouri's Patchwork Family Farms?

Times are tough, and the world is a pretty complicated place these days. But it is still hard to comprehend the rationale for an agriculture policy that has the citizens of a so-called "have not" province like Saskatchewan subsidizing Smithfield Foods, the biggest pork sector transnational corporation in the world, instead of using the wealth of our land, resources and ingenuity to create real long-term wealth, health and prosperity for our own communities.



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#### **Footnotes:**

- \* **"Vertical integration"** means that a company owns or controls the inputs, the processing plant and often the distributors and the retail arm of the same business. With the pork industry, vertical integration occurs when a company like Smithfield Foods owns or contracts hog production, owns or controls the packing plant, and has the market power to influence the distribution and retail sales of pork.
- \*\* **"Single desk selling"** was a system where all hog farmers had equal access to the market, because everyone would sell their pigs to SPI which would in turn sell the hogs to the various packing plants. Now, packers can make their own contracts with large producers and buy hogs at a fixed price. The switch from single desk to contract selling reversed the market power -- instead of the packer paying the daily market price for hogs and farmers having guaranteed market access, now hog farmers have limited market access and packers have a guaranteed supply.

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