

The Farm Crisis and Corporate Power

By Darrin Qualman

Foreword by Nettie Wiebe
Afterword by Murray Dobbin

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Acknowledgements

The brief on the farm crisis that forms the centre portion of this monograph, while written by one author, is the work of many. It is the product, not only of the person who wrote down the ideas, but of the many devoted National Farmers Union (NFU) members, past and present, who struggled to develop and propagate these progressive ideas. And it is the product of the NFU, as an organization, which has fostered a spirit of inquiry, skepticism, and genuine concern for farm families and rural citizens since its inception 31 years ago.

The NFU is the only voluntary, direct-membership national farm organization in Canada. For over three decades, the NFU has fought to ensure that the family farm is maintained as the primary unit of food production in Canada. And it has fought for a system of agriculture that is socially, environmentally, and economically sustainable.

I, and the National Farmers Union, would like to thank Nettie Wiebe and Murray Dobbin for their work on these issues and their contributions to this project; and Bruce Campbell and the staff at the Canadian Centre for Policy Alternatives for their tireless work in helping Canadians understand their economic and social options and, especially, for their work to produce the publication you now hold.

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Foreword

By Nettie Wiebe

There are those who may think the subject of farm prices and subsidies is so arcane it could only be of interest to that minority of Canadians who actually farm and that even smaller contingent of agriculture economists. But the issues that underlie the recurring farm crises suffered by Canadian farming families are as near to us all as our next meal. In fact, they are the determinants of where our food is coming from, what it costs, and who is controlling the food system.

Over the last two decades, Canadians have heard many news stories about trouble in the farm sector. The most frequent headlines are those reporting bad weather – hailstorms, flooding, drought, heat waves, etc. These dramatic visuals make it is easy for most Canadians to understand that, when crops are damaged or destroyed by adverse weather, farmers suffer financial losses. There is, however, another range of news items in the farm sector which are less dramatic or transparent, but are of far greater consequence to the food and fate of Canadians. These are the stories of high production costs and low farm-gate prices, loss of people and services in rural communities, increased trade in agricultural goods, and corporate agribusiness mergers.

News of a farm financial crisis is, no doubt, puzzling for most Canadians. What could be the problem with farmers these days? Canadian farms are among the most highly industrialized, highly mechanized, and highly capitalized farms in the world. Indeed, Canadian agriculture is held up as a

model for farmers elsewhere – high input, productive, modern, commercial, market-driven, with an emphasis on producing “commodities” for the export market.

But all this is accompanied by farm financial crisis, especially for those farm families relying most on the international market. There continues to be a steady decline in the number of farm families; off-farm income has become a necessity for the majority; and the average age of farmers is rising as fewer young people enter the business. These unhappy results are more than a little puzzling for those who subscribe to the view that prosperity can best be achieved through competitive markets.

Why are Canadian farm families faring so badly in the global marketplace? The favourite explanation is that the global marketplace is distorted by foreign governments, particularly the European Union, subsidizing their farmers, thereby encouraging overproduction. This oversupply is trashing the international price which Canadian farmers are forced to accept. The glib logic of this explanation has allowed it to prevail almost unchallenged. Its simplistic beauty leaves the basic tenets and functioning of the market unexamined, doesn't focus any attention on the players in that marketplace, and leaves consumers happily out of the picture altogether.

There is more to the story, however. Thoughtful consumers might ask themselves how it is that farm-gate prices which bankrupt farmers don't result in lower gro-

cery shelf prices. Why is the purported oversupply not reflected in lower food prices? Socially conscious citizens might reasonably ask how it could be that the same governments, corporations, and experts who tout the oversupply of grains as the cause of the farm crisis are also enthusiastically pursuing controversial methods of increasing production, including genetically modified crops and increased chemical use, ostensibly to erase hunger. Skeptical farmers should be wary of any explanation that blames the prosperity of farmers elsewhere for our own poverty. If impoverishing farm-

ers around the world were really the solution to our financial problems, there are surely enough to ensure our prosperity.

Obviously, the standard answers to the grave situation facing many farm families do not go to the heart of the matter. This paper does. It slices through the propaganda and market ideology with a fine edge of facts and analysis exposing the real problems. This paper is not just of interest to farmers and economists or to anyone hoping to learn more about what is happening in agriculture, but also the rest of us who intend to buy, eat, and enjoy food.

The Farm Crisis and Corporate Power

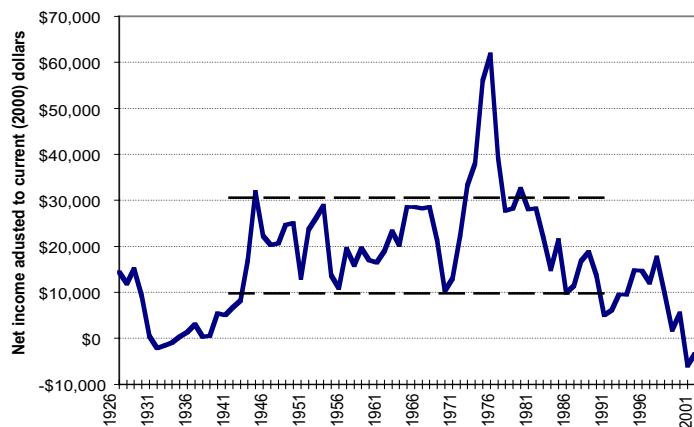
The crisis

Net farm income has returned to Depression-era levels. Agriculture and Agri-Food Canada (AAFC) projects 1999 realized net income for Saskatchewan farmers at \$96 million.¹ This works out to just \$1,783 per farm, a level not seen since 1938. Worse still, AAFC projects negative realized net farm incomes for 2001, 2002, and 2003, with losses worse than those during the depression (see Figure 1).

While Saskatchewan provides the starkest illustration of the farm income crisis, the crisis is not confined to that province. In nearly identical fashion, realized net farm income has fallen to 1930s levels for grain and hog producers in Alberta, Ontario, and across Canada.[†]

In the 1930s, it took a worldwide economic collapse, a stock market crash, mass unemployment, and a prairie-wide drought to drive net farm income to negative values.

Figure 1: Saskatchewan Realized Net Farm Income (per farm and adjusted for inflation)



Source: *Agriculture Economic Statistics*, Statistics Canada Cat. # 21-603E; *Consumer Price Index*, Statistics Canada Cat. # 62-010; *Historical Overview of Agriculture*, Statistics Canada Cat. # 93-358.

[†] In provinces such as Ontario and Quebec, the income crisis for grain and hog producers has been statistically masked by the high percentage of farmers producing supply-managed commodities (milk, chickens, turkeys, and eggs) and the relatively stable incomes those farmers enjoy. Those farmers are paid based on their costs of production and have largely been spared from the current income crisis.

Today, stock markets, until recently, are booming, employment levels are relatively good, the weather is generally good, and crops are average or better. *The current farm income crisis is unprecedented in times of economic prosperity and stability.*

The government's explanation for the crisis: EU subsidies

The unprecedented and dramatic net farm income collapse has Canadian federal and provincial ministers of agriculture scrambling to find an explanation. Their explanation of choice is that the crisis is caused by domestic agricultural subsidies, primarily European.†

Provincial and federal governments were unanimous in making substantial reductions in European Union (EU) domestic subsidies their main priority at the December 1999 Seattle Ministerial meeting of the World Trade Organization (WTO). They remain focused on reductions in EU subsidies in upcoming negotiations.

Canada's August 19 *Initial Negotiating Position on Agriculture* states that "Global trade distortions have had, and continue to have, a major impact on Canadian farm incomes...." The federal government states that "certain forms of domestic support can stimulate production...." The document goes on to assure farmers that "Canada will seek the maximum possible reduction or elimination of production and trade-distorting support...."

In its January 1999 discussion paper, *The Upcoming Round of WTO Agricultural Nego-*

tiations: What's on the Table?, the Ontario Ministry of Agriculture, Food, and Rural Affairs states that "policies which support domestic prices, or subsidize production ...encourage overproduction."

The Saskatchewan government states that a major cause of the farm income crisis is: "The continued use of domestic production subsidies by the EU and U.S. that isolate their producers from market conditions and result in overproduction and glutted world markets."²

Those who blame the farm income crisis on EU subsidies explain the causation as follows:

1. Subsidies cause increased production, oversupply, and, hence, declining prices and incomes.
2. Subsidies distort production. Farmers make planting choices based on subsidy levels and not on supply and demand signals communicated through market prices. Hence, farmers produce too much of some commodities.
3. Subsidies allow farmers to produce and sell at lower prices and, hence, drive down prices.

This section of this paper takes a critical look at these three assertions and at the argument that subsidies, European or otherwise, cause oversupply, low prices, and the current farm income crisis.

Is there oversupply?

Stocks/use ratios are a fundamental and oft-quoted measure of supply and demand. The ratios compare the stocks on hand (in eleva-

† This paper deals with domestic subsidies, not export subsidies. Export subsidies have been dramatically reduced and, while still detrimental, are no longer a major feature of the agricultural trading system. The current debate centres on large domestic subsidies. So, too, will this paper.

tors, storehouses, railcars, farm granaries, etc.) at the end of a given year to the amount used in that year. A low stocks/use ratio denotes low supply and should trigger price increases.

Let's begin with wheat. The world stocks/use ratio for wheat was 40.4% in 1968/69.³ The ratio fell to just 21.3% in 1972/73 and sparked a dramatic price rise which led to a period of farm prosperity that lasted until the early 1980s.

Given current low wheat prices, one would expect high wheat stocks/use ratios (high ratios = large supply relative to demand = low prices). To the contrary, ratios for the last four years have been at, or near, record lows. According to the U.S. Department of Agriculture (USDA), the world wheat stocks/use ratio for 1995/96 was 19.0% — *the lowest level in 40 years, possibly longer.*⁴ The following year, it increased only slightly, to 19.1%. The USDA estimates that the ratio was 23.0% for 1998/99 and will be 21.9% for 1999/00, but even these are far below the levels of the mid-1980s when wheat stocks/use ratios hovered between 25% and 35%.

In order to continue to argue that current low wheat prices are caused by surplus, one would have to assert that stocks/use ratio percentages in the high-teens and low twenties (as they are now) denote surpluses. Taking this position, however, one would then be forced to admit that there have not been more than one or two years in the last 40 when there has not been a "surplus." One must then ask: If "non-surplus" years have been so rare over the past 40 years, how common will they be in the future?† If farm

prosperity requires even lower stocks/use ratios than we have today, and if those lower ratio years are extremely rare, how often can we expect prosperity in the future?

Seen another way, is it wise to construct a world food system such that farmers cannot expect prosperity unless world supplies fall below levels needed to sustain its population for 69 days? [19% stocks/use ratios translate into a 69-day supply of food on hand.]

The situation for coarse grains (oats, barley, corn, sorghum, rye, millet, and mixed grains) is identical to that for wheat. The world coarse grain stocks/use ratio in the 1980s averaged 21.4%. In 1995/96, it fell to 11.3% — *a 40 year low.*⁵ It has increased since then but the USDA projects that it will not exceed 17.6% in the near future. Despite these relatively tight stocks, barley, corn, and other coarse grain prices remain extremely low.

The assertion that there is an oversupply of grain is extremely questionable. The assertion that there exists oversupply of a magnitude sufficient to cause the worst farm income crisis since the 1930s is clearly false.

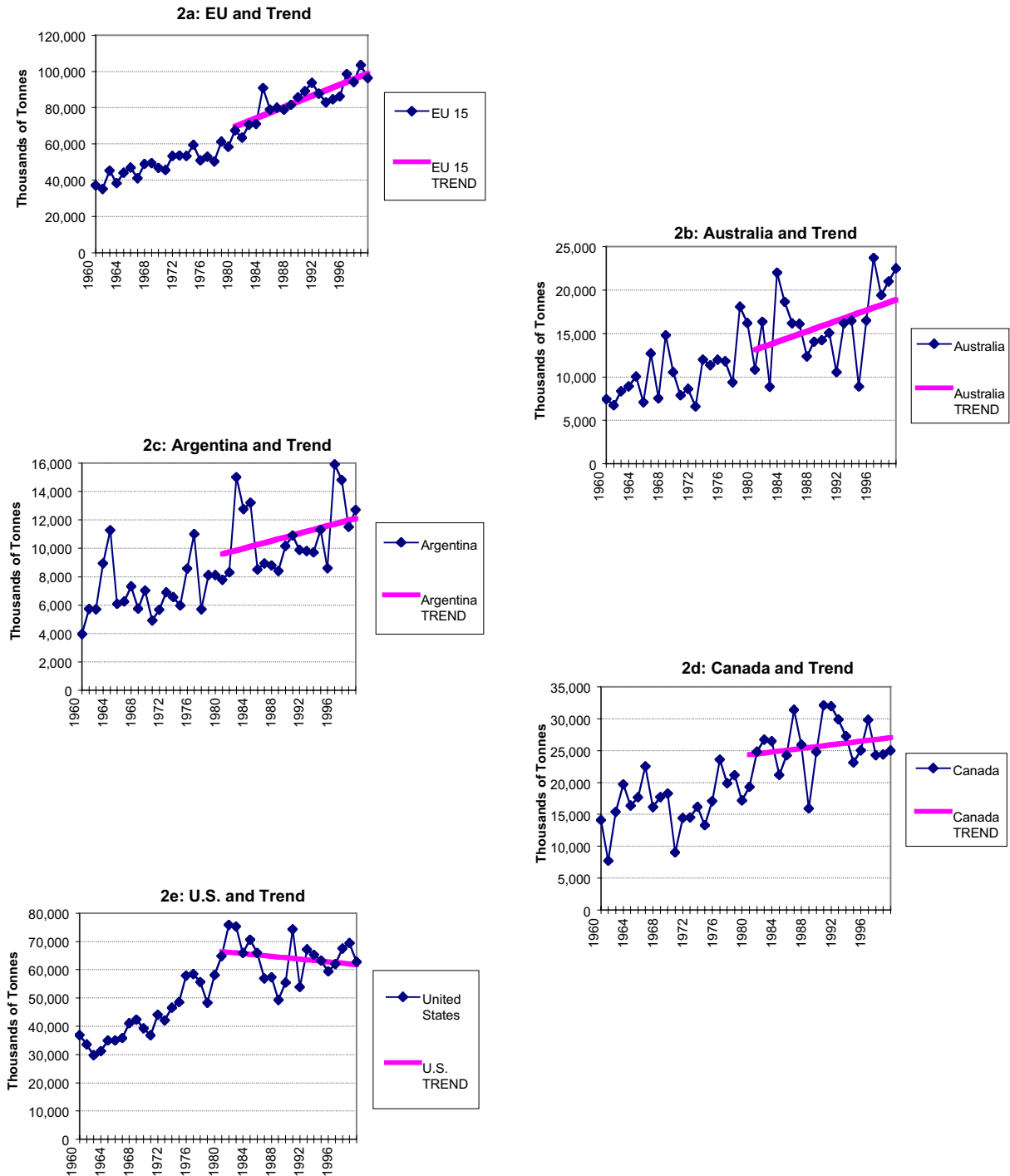
Do EU subsidies cause oversupply?

Despite the preceding evidence, some would continue to argue that there is oversupply. Let's grant that assertion for a moment and ask: If there is oversupply, is it caused by EU subsidies?

Canadian ministers of agriculture and others who blame the farm income crisis on EU

† Note that "surplus" and "scarcity" are used only in the narrow economic sense. The author sets aside, for the moment, the hundreds of millions of children, women, and men who have died, and continue to die, despite large world food "surpluses."

Figure 2a-2e: Wheat Production Changes and Trendlines in Selected Countries: 1980-99



Production data courtesy of USDA. Data can be accessed at: <http://jan.mannlib.cornell.edu/data-sets/international/93002/>

subsidies put forward the following analysis: EU subsidies → increased production → oversupply → depressed prices → farm income crisis.

They point to significant increases in EU production as evidence for their analysis. But what if production is also increasing in countries that have very low subsidy levels?

Let's begin by looking at wheat production increases. Five major producers — Canada, the EU, U.S., Argentina, and Australia — accounted for 87% of world wheat exports in 1998/99.⁶ The graphs on the preceding page show actual production levels and the trendline for production changes since 1980 for these four countries and one federation (please see Figures 2a-2e).⁷

While wheat production rose in heavily subsidized EU countries (Figure 2a), it rose at comparable rates in relatively unsubsidized countries such as Australia (2b) and Argentina (2c) and (at a lower rate) in Canada (2d). In the next most highly subsidized country after the EU — the U.S. — production of wheat declined (2e). In light of this, it is hard to assert that subsidies cause increased wheat production. If production is increasing in relatively unsubsidized countries at a rate similar to that of the highly subsidized EU countries, any causal link between subsidies and increase production is broken. The link is further severed when one notes that production *decreased* in the heavily subsidized U.S. market.

Year-to-year production varies widely due to changes in weather, seeded acreage, yield, etc. As a result, when assessing changes in production, it is more instructive to look at

the linear trendlines calculated over a number of years rather than to compare one specific year to another. The accompanying graphs include 1980-99 trendlines. Table A lists trendline changes in wheat production between 1980 and 1999.

Table A: Wheat production level trendline changes for major exporters: 1980-99

European Union	+42%
Australia	+44%
Argentina	+26%
Canada	+11%
United States	-7%

While EU wheat production, calculated on a trendline, rose 42% since 1980, Australian production rose 44% and Argentinian production rose 26%. Canadian production was also up 11%. Highly subsidized U.S. production fell 7% since 1980.⁸

Similarly, there is no correlation between subsidy levels and increases in coarse grain (barley, corn, sorghum, oats, millet, rye, and mixed grains) production for these same countries. Table B, below, lists trendline changes in coarse grain production between 1980 and 1999.

Table B: Coarse grain production level trendline changes: 1980-99

European Union	+0.39%
Australia	+46
Argentina	+3%
Canada	+9%
United States	-22%

The most highly subsidized countries had the smallest increases in coarse grain production or, in the case of the U.S., a decrease in production.

A similarly ambiguous picture emerges when one looks at “total oils” (soybean, cottonseed, peanut, rapeseed, canola, sunflower seed, coconut, palm, olive, and fish oils). Table C, below, lists trendline changes in total oil production since 1980.

Table C: “Total oils” production level trendline changes: 1980-99

European Union	+73%
Australia	+294%
Argentina	+522%
Canada	+283%
United States	+70%

Table C demonstrates that EU oil crop production increased at just one-quarter to one-seventh the rate of some relatively non-subsidized countries. Likewise, increases in highly subsidized U.S. production lagged far behind rates of increase in relatively non-subsidized countries. Like coarse grains, oil crop production increases and subsidy levels are inversely proportional.

There seems to be no major grain or oilseed sector where production in the EU has increased significantly faster than production in non-subsidized countries.

Clearly, assertion number 1 (page 4), that “Subsidies cause increased production...,” must be augmented by the assertion that *the absence* of subsidies also causes increased production. Had EU subsidies been lower or nonexistent over the past 20 years, there is little evidence that its current production would be lower. Thus, the assertion that subsidies are the cause of increased production becomes meaningless.

Do subsidies distort production?

The second of the three assertions (page 4), that “Subsidies *distort* production...,” is similarly unsupported by evidence. The argument behind this assertion is that subsidies cause farmers to transfer acres into the production of subsidized crops — wheat, corn, and soybeans, for instance — and out of non-subsidized crops. If this were true, one would expect that some crops — those that farmers transferred acres *away from* — should be in relatively short supply and relatively highly priced. There seem to be few such crops.

Stated another way: What crops would farmers transfer their acres *into* if subsidies ended immediately? Peas? Flax? Canola? Judging by the prices of these commodities, they are already “overproduced.”

Western Canadian farmers are relatively unsubsidized. Over the last decade, they have scrambled to find and grow relatively high-value crops. In the early 1990s, many turned to peas with some initial success. Within a few years, however, pea acreage increased to such an extent that prices fell from \$6/bushel to \$3. If subsidies ended, would more European or U.S. acres shift to field peas? What effect would this have on already depressed prices?

Canola prices are well below \$6 per bushel.⁹ With the exception of one short period in 1986/87, prices are at a 25-year low. If subsidies ended, would more acres shift to canola? Would the acres shift to other oil crops which compete with canola for markets?

It is incorrect to assert that, in the absence of subsidies, acreage would revert to those crops where more production is needed, because no such crops exist. In light of this, the argument that subsidies are production distorting largely disappears.

Do EU subsidies drive down prices in other ways?

Assertion number 3 (page 4), that “Subsidies allow farmers to produce and sell at lower prices and, hence, drive down prices,” is merely a thinly disguised version of assertion number 1, that: “Subsidies cause increased production...” In identical fashion to the first assertion, the third assumes that, in the absence of subsidies, farmers *could not* afford to produce and sell — or would not do so. Assertion number 3 implies that the absence of subsidies would result in farmers producing less or somehow extracting higher prices. The evidence from Canada, Australia, Argentina, and elsewhere, detailed above, demonstrates that this assertion is incorrect.

Can we curb EU subsidies?

Despite the evidence presented above, some would still assert that domestic subsidies cause overproduction, oversupply, depressed prices, and the current farm income crisis. These people would further assert that the solution to the current farm income crisis is to force the EU (and the U.S. and other countries) to dramatically reduce or eliminate their subsidies. Let’s grant these assertions for a moment and ask: Is it likely that we can force the EU to drastically curtail or eliminate its agricultural subsidies?

In conversations with National Farmers Union leaders, European officials are blunt: they say they have seen the vast tracts of land and few farm communities in northern North Dakota and other parts of the United States. They know that the western Canadian countryside is heading in a similar direction at an accelerating rate.

Europe enjoys a vibrant and well-populated countryside. European citizens and politicians want to see small farms in the country, dairy cattle grazing in mountain valleys, and thriving rural communities, and they will do what it takes to ensure that those farmers, cow herds, and towns survive and prosper. European officials say that they will do everything necessary to protect their farmers. They tell us that they have seen what naked market forces do to farmers and to the countryside, and they refuse to abandon their farmers and rural communities to such destructive forces.

The EU will energetically resist attempts by Canada, the U.S., and others to force it to significantly reduce or eliminate support to its farmers. There is reason to doubt that we can force the EU to significantly cut subsidies.

Can we curb EU subsidies in time?

Despite the arguments above, some would still assert that the solution to the current farm income crisis is to force the EU (and other countries) to significantly reduce or eliminate subsidies and that we can succeed in doing so at the World Trade Organization (WTO) and in other venues. Let’s grant those assertions for the moment and ask: How long might it take?

The last round of WTO agricultural negotiations — the Uruguay Round — began in 1986 and ended in 1994. The Uruguay-Round agreement committed WTO members to modest subsidy reductions over periods ranging from six to 10 years. Today, 14 years after the start of that round, we have yet to see significant subsidy reductions.

We have entered a new round of WTO talks. In a January 20, 2000 letter from Agriculture Minister Lyle Vanclief to NFU President Cory Ollikka, Vanclief states: “Notwithstanding the failure to launch a new comprehensive round of trade talks in Seattle, negotiations on agriculture and services are already mandated by existing WTO agreements, so that discussions on both will start early in the new year [2000].”

Given the deadlock in Seattle, it is reasonable to expect that this round of WTO agricultural talks will take at least as long as the last round. Thus, a new agreement on agriculture is at least eight to 10 years away. As in previous agreements, subsidy reductions will be phased in over 10 or more years. It is unlikely that we will see significant reductions in agricultural subsidies before 2015, if ever. And even if world production does

decrease as a result of subsidy reductions (as some argue it will), those production decreases will come still later. Any price increases that might follow are unlikely before 2020.

Canadian farmers face record and near-record low prices. They are struggling with Depression-era net incomes. These farm families tell federal and provincial governments that they need *immediate* financial assistance or they face bankruptcy. These farmers cannot hang on for even two years, let alone 20.

EU subsidies: conclusion

For those who contend that ending EU subsidies will curb production, end oversupply, increase prices, and solve the Canadian farm income crisis, this paper contends:

- There is no evidence that EU subsidies are the cause of the crisis;
- Even if there were, there is little hope that we could force the EU to reduce subsidies;
- Even if we could, it will happen too late to save Canadian farmers, the vast majority of whom need immediate help.

The real explanation for the income crisis

Do markets work?

The purpose of the preceding analysis is to refute the argument that European subsidies cause the current income crisis.† Once accomplished, this will force elected leaders, trade officials, and other decision-makers to grapple with the real causes of the income crisis and, it is hoped, the real solutions.

Before we turn to those real causes, I want to pause and examine why the EU subsidy explanation is so attractive. Many of the elected leaders and business people who gave us the recent parade of trade agreements, deregulation initiatives, and privatization schemes are market ideologues. They believe — often in spite of the evidence — that markets work.

If markets work, how do elected politicians and corporate executives explain the economic carnage on family farms? They cannot concede that markets sometimes fail. They must, therefore, blame “market distortions” and “market barriers” — state trading enterprises, tariffs, and subsidies. Hence the attraction of the EU subsidy explanation. The markets would work for farmers, they declare, if only we could clear away the barriers and distortions. Hence, they charge off to the WTO to rid the world of tariffs and

subsidies and free the invisible hand of the global market economy to dispense prosperity and freedom to the industrious and efficient.

The real explanation: market failure due to an imbalance in market power

The market *is* failing farmers, it is failing worldwide, and it has been since at least the late 1970s. The market is failing to return a fair and adequate share of the consumer dollar to farmers. And it is failing to allocate to farmers a reasonable return on labour, management, and equity from our agri-food system’s huge revenue stream.

The EU spent approximately \$90 billion in 1999 to protect its farmers from chronic market failure. The U.S. spent approximately \$24.5 billion to protect its farmers.¹⁰ In Canada, federal and provincial governments have chosen not to protect farm families from this market failure. Federal agricultural spending has fallen to half the levels of ten years ago. The result is widespread bankruptcy, the rapid loss of family farms, decimated rural communities, and damaged regional economies.

Market failure is apparent to anyone who wishes to look. Moreover, *it is entirely predictable*. It is a direct result of dramatic market power imbalances between agri-food industry transnationals and the family farms that must do business with these firms.

† Blaming low farm incomes on EU subsidies is just the latest case of politicians and others searching for false explanations. In the 1970s and 1980s, whenever farm incomes dropped, experts were ready with advice for farmers: expand, specialize, diversify, add-value, quit growing wheat, grow high value crops, embrace new technology, use marketing tools. The implication was that farm incomes were low because farmers were doing something wrong. Today farms are much larger, farmers are using global positioning system (GPS) equipment and computers, growing chickpeas and lentils, raising wild boars and fainting goats, using genetically-engineered seeds and high-tech seeding and harvesting equipment, value-adding, and marketing. For this investment and innovation they have been rewarded with the lowest net farm incomes since the 1930s. Since the stock of traditional excuses for low farm incomes has been exhausted, a new explanation was needed: EU subsidies. Canadian farmers are relieved: while politicians and others still blame farmers, at least they are blaming European, and not Canadian, farmers.

The modern “food chain”

Imagine food production as a long vertical chain. At the top is a link which represents oil and natural gas companies. Moving down to the next link, oil is refined into diesel fuel, and fertilizer companies turn natural gas into fertilizer (anhydrous ammonia, one of the most widely-used fertilizers, is created directly from natural gas).

Moving farther down the chain, we have the chemical company link, the machinery companies, seed companies, and banks. All these links together are the “input” or the “upstream” links.

In the middle of the chain is the farmer link. This is where farmers combine the inputs — energy, seed, technology, and capital — with soil, rain, and sun to produce food.

Moving farther down, we find the “downstream” links: grain companies, railways, processors, packers, brewers, retailers, and restaurants.

Figure 3 shows the modern food chain, the companies that dominate each link, and the revenues, profits, and return on equity rates each earns.

When one examines the corporations arranged along this chain, several aspects stand out. Most important is that nearly every link, nearly every sector, is dominated by between two and 10 giant transnational corporations. The single significant exception is the farm link. In Canada, that link is made up of nearly 300,000 small, family-owned “firms.” In the U.S., where many of the same input and processing companies

dominate, the farm link is made up of over two million family-owned firms.

The size of agribusiness corporations relative to farms also stands out. Total 1998 Canadian gross farm revenues were \$29 billion. Cargill’s revenues were \$75 billion that year. Philip Morris Inc. (Post, Kraft, Oscar Mayer, Kool-Aid, Jello, Maxwell House, Marlboro, Miller) had revenues in 1998 of \$109 billion.† Nestlé (Stouffer’s, Maggi, Libby’s, Nescafé, Perrier, etc.) had revenues of \$76 billion. While these revenues are large in relation to total revenues for all Canadian farmers, they are staggering compared to the revenue of any individual farmer.

If one looks objectively — without preconceptions about the marvels of the market — at the agri-food chain with its huge imbalances in market power, one would immediately have doubts that extremely numerous and relatively tiny family farms could extract fair and adequate revenues and profits from a chain dominated by firms a thousand to a million times larger.

A handful of firms dominate each sector

In addition to their advantage in size, the *small number* of firms which dominate each “link” adds to their market power:

- Three companies retail and distribute the bulk of Canadian oil, gasoline, and diesel fuel.
- Three fertilizer companies control 71% of Canada’s nitrogen fertilizer production capacity:
 - Agrium (North America’s largest nitrogen fertilizer producer) controls 45%

† Philip Morris claims that one dollar in 10 spent in a U.S. grocery store is spent on Philip Morris products.

- Canadian Fertilizer Limited (a joint venture of Western Cooperative Fertilizers Ltd. {Agricore and SWP} and CF Industries {a consortium of U.S. cooperatives}) controls 14%; and
 - Saskferco (50% Cargill and 49% Gov't of Sask.) controls 12%.¹¹
- Nine companies make and market almost all of the insecticides, fungicides, and herbicides used in Canada. Moreover, product specialization, patenting, and high registration costs limit the number of firms which sell a given type or category of pesticide. For example, Monsanto (Roundup) and one or two other companies sell the vast majority of nonselective herbicides in Canada. Worldwide, the top ten companies control 85% of the \$45.4 billion market, and six firms control 63%.¹²
 - Four companies (DuPont/Pioneer, Monsanto, Novartis, and Dow) control 69% of the North American seed corn market and 47% of the soybean seed market. At the end of 1998, Monsanto controlled 87% of the U.S. cotton-seed market (it has since divested some cotton-seed interests in an attempt to win approval of its takeover of Delta and Pine Land).¹³ While Canadian canola figures are unavailable, it is probable that Monsanto's control of that market is between one-third and one-half. Monsanto sold 88% of the transgenic seeds in the U.S. in 1998. Approximately 60% of Canadian canola is transgenic.
 - Three companies dominate the Canadian and North American farm machinery sector: Case/IH, New Holland, and John Deere. Soon there will be two, when Case/IH and New Holland merge. The Case/IH/New Holland side of this duopoly will have annual revenues of approximately \$18 billion.
 - Five banks control Canadian agricultural credit, along with some participation by the federal Farm Credit Corporation and a network of relatively small Credit Unions. The combined profits of Canada's five chartered banks were \$6.75 billion in 1998.
 - Two railways, CN and CP, haul western Canadian grain. Their 1998 profits exceeded the combined realized net income of the 79,000 farmers in Manitoba and Saskatchewan. While two railways (a duopoly) would have significant market power, the distance between their main lines means that most farmers are captive to one or the other (a monopoly).
 - Nine grain companies control grain collection in Canada. While this number seems relatively large and the prospects of competition reassuring, analysts predict that mergers and takeovers will soon leave only four. At an April 13, 1999 meeting of the Canada Grains Council, Agricore CEO Gordon Cummings predicted that American transnationals ConAgra, ADM, and Cargill will survive "and if we do things right, one Canadian-owned [company will survive]." He predicts that the consolidation will occur within two to five years following the conclusion of the next round of WTO talks.¹⁴

- Two companies, IBP and Cargill, dominate the beef packing sector with 74% of Canadian capacity (37% each).¹⁵ These companies also dominate the U.S. beef packing sector with 32% and 19% of packing plant capacity, respectively.¹⁶ Thus, these companies dominate the entire North American beef packing sector. Their profit levels reflect this dominance.

- While there is a relatively large number of large food processors in Canada and worldwide, there is substantially less competition than would first appear. This is because regional and product specialization means that, in a given area, only two, three, or four firms process and market a given product.

Three large firms manufacture pasta in Canada:

- Borden (Catelli, Lancia) with 39.2% of Canadian pasta plant capacity and \$3.4 billion in annual sales worldwide;
- RJR Nabisco (Primo) with 25.3% of Canadian plant capacity and \$25 billion in sales of processed foods worldwide; and
- Italtasta with 24.1% of Canadian capacity.

Four corporations mill 80% of Canadian flour:

- Archer Daniels Midland with 46.3% of Canadian wheat flour milling capacity;
- Robin Hood Multifoods with 19.6%;
- Dover Industries with 6.5%; and
- Parrish and Heimbecker with 6.4%.

In Canada, three companies manufacture the bulk of the soft drinks sold, four com-

panies produce most of the cereal, a handful handle coffee, and a small number make frozen french fries. It is beyond the scope of this paper to exhaustively list the market shares for each firm and each product in the agri-food-processing sector. Suffice it to say, like the rest of the agri-food chain, the production and distribution of a given food product is almost always dominated by a few very large corporations.

- Five companies control food retailing in Canada:

- Weston/Loblaws/Westfair (Superstore, Loblaws, Loeb, Provigo, IGA, SuperValu, Lucky Dollar, Extra Foods, The Real Canadian Wholesale Club, Your Independent Grocer, No Frills, Valu-Mart, etc.);
- Safeway;
- Metro-Richelieu;
- Empire/Sobeys; and
- Pattison/Overwaitea.

Again, the relatively large number of retailers is deceiving because two or three companies dominate most regions:

- Pattison/Overwaitea and Safeway market most of the food in British Columbia;
- Weston/Loblaws/Westfair and Safeway dominate food retailing on the Prairies;
- The Ontario market is dominated by Weston/Loblaws/Westfair, Sobeys, Metro-Richelieu, and A&P;
- Metro-Richelieu, Empire/Sobeys, and Weston/Loblaws/Westfair (Provigo) divide the Quebec market;
- And two companies — Empire/Sobeys and Weston/Loblaws/Westfair (Atlantic SaveEasy, Atlantic Superstore, Dominion, IGA) — share the Maritimes.

- A handful of restaurant chains control an increasing portion of the restaurant food trade. McDonald's had worldwide revenues of \$18.3 billion in 1998. Tricon (KFC, Taco Bell, and Pizza Hut) has 29,700 franchised locations in 100 countries and gross revenues of \$12.5 billion.

The small number of very large corporations that dominate each link in the agri-food production chain means that these firms can exert significantly more upward pressure on their selling prices and profits and more downward pressure on their buying prices than would be the case in competitive markets. At many links, market power is much closer to monopoly levels than it is to levels found in competitive markets. This extreme concentration of market power enables these firms to extract extremely high profits. This is especially true when they transact with players several orders of magnitude smaller, such as farmers.†

Profits in the chain

When farmers look at the large size and the small number of firms that dominate each link in the agri-food production chain, they become concerned. Those concerns are borne out when one looks at the profit levels at other links in the chain. The farm income crisis is a crisis only on the farms. While farm families face large losses, the huge corporations that dominate the other

links in the agri-food chain continue to earn large profits.

“Return on equity” is a common measure of profitability. It is calculated by dividing net income (profit) by average equity (assets minus debt). An accurate and startling picture of relative profitability emerges when one compares return on equity rates for farmers to those in the other links in the chain. While farmers earn five-year average return on equity rates of just 0.7%, agribusiness corporations earn 5%, 10%, 30%, and, in several cases, over 40%. Please see Figure 3 to compare 1998 and five-year return on equity numbers for farmers and leading agribusiness corporations.

Some explanation is needed regarding return on equity calculations for farmers. Net farm income (realized or otherwise) is not the same as corporate “net income” (also called “profit”). Corporate net income (profit) is calculated after everyone — workers, managers, and the CEO — is paid. In contrast, net farm income is calculated *before* any allowance is made for the labour or management contributions of farm family members. To calculate return on equity numbers for farms *that are comparable* to those in industry, one must subtract the estimated value of farm family labour and management from published net farm income numbers. Thus, return on equity is calculated as follows:

† Note that when one large corporation deals with another, their market power is relatively balanced — Philip Morris can negotiate on equal footing with Cargill. Where corporations can exert their tremendous market power to their advantage is when they deal with a large pool of relatively small and unorganized suppliers or buyers: in the food system, this means farmers or consumers. This helps explain the attraction of “farm gate to dinner plate” vertical integration to corporations like Archer Daniels Midland, ConAgra, and IBP. If these corporations can buy from the farmer and sell to the consumer, they need never deal with another powerful transnational. They can use their market power against farmers at one end and against consumers at the other. While their integration is not yet complete — they still must deal with food retailers at one end — it is clear that these corporations are attempting to vertically integrate to minimize their transactions with powerful transnationals like themselves and to maximize their transactions with farmers and consumers where they can use their market power to best advantage.

$$\begin{aligned} \text{Return on equity} = \\ \frac{\text{Total net income} - \text{value of farm family labour} \\ \text{and management}}{\text{Capital} - \text{Debt}} \end{aligned}$$

Other than the value of farm family labour and management, all the figures needed to calculate return on equity are included in Statistics Canada's *Agriculture Economic Statistics* (Cat. # 21-603). The challenge is to accurately estimate the value of farm family labour and management. This paper will leave that task to agricultural economists. As a proxy, this paper will use a crude *but extremely conservative* estimate: \$30,000 per farm with sales over \$100,000 (83,140 of Canada's 276,548 farms as of 1996 census) and zero for those farms with sales under \$100,000.

Calculated using the formula and assumptions listed above, **the 1998 return on equity rate for Canadian farms is 0.3% and the five-year average is 0.7%**. This rate is for all farmers. Although segregated data are not available, grain producers almost certainly earned large negative returns on their equity in 1998 and over the five-year average. Moreover, once economists generate a more precise and less conservative estimate of the value of farm family labour and management, it is almost certain that new calculations of farmers' returns on equity will show negative rates. Total "profit" (net income minus the value of farm family labour and management) for all farmers for 1998 was \$366.8 million — \$1,326 per farm.

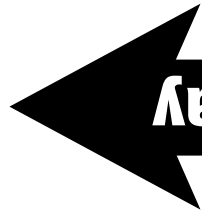
It is intuitively obvious that grain, hog, and many other farmers earn near-zero or negative returns on equity. To have a positive return on equity, one must have profits. This

means that there must be money left over after everyone is paid for labour and management. On many farms, one or both spouses work off the farm to buy clothes and food. Thus, it would seem that not only is there no money *left over* when everyone is paid for labour and management, but also that there is not even enough money to pay everyone for labour and management. If a business cannot even meet payroll, it surely has no profit and it surely has a negative return on equity.

These tiny or negative returns are unique to farmers. The other players in the chain reap large profits and, hence, high rates of return on equity. While the farmers growing cereal grains — wheat, oats, corn — earn negative returns and are pushed close to bankruptcy, the companies that make breakfast cereals reap huge profits. In 1998, cereal companies Kellogg's, Quaker Oats, and General Mills enjoyed return on equity rates of 56%, 165%, and 222%, respectively.¹⁷ While a bushel of corn sold for less than \$4, a bushel of corn flakes sold for \$133. In 1998, the cereal companies were 186 to 740 times more profitable than the farms. Could it be that farmers are making too little because others are taking too much?

In Canadian retailing, George Weston Ltd. (Superstore, Loblaws, Loeb, Provigo, IGA, SuperValu, Lucky Dollar, Extra Foods, The Real Canadian Wholesale Club, Your Independent Grocer, etc.) earned a 1998 return on equity rate of 37.3% and profits of \$773 million. This one company's profits were double that of all Canadian farmers combined (\$366.8 million: see three paragraphs previous). Its return on equity rate was 124 times higher than that of farmers.

Figure 3: Agrifood chain revenues, profits, and return on equity



	1998 Revenue	1998 Profit	1998 Return on Equity	5 year average return on Equity
Oil and Natural Gas				
1 Imperial Oil (Dec. 1998)	\$ 7,955	\$ 554	12.9 %	12.3 %
2 Shell Canada (Dec. 1998)	\$ 4,506	\$ 432	13.1 %	14.2 %
3 Petro-Canada (Dec. 1998)	\$ 5,016	\$ 95	2.4 %	6.7 %
Fertilizer				
4 Agrium Inc. (Dec. 1998)	\$ 2,654	\$ 177	18.7 %	37.1 %
Canadian Fertilizers Ltd. ()	\$	\$	%	%
5 Saskferco Products Inc. ()	\$	\$	%	%
Potash Corp. of Saskatchewan (Dec 1998)	\$ 3,442	\$ 383	10.7 %	13.3 %
Sherritt International (Dec 1998)	\$ 359	\$ -46	-3.9 %	n/a
Chemicals and Seeds				
6 Monsanto ()	\$ 12,718	\$ -368	-5.0 %	7.4 %
Aventis ()	\$ 20,000 (est)	\$	%	%
Novartis ()	\$ 27,818	\$ 5,321	21.0 %	16.5 %
Zeneca (Dec 1998)	\$ 12,949	\$ 1,678	28.4 %	27.6 %
E.I. Dupont de Nemours (Dec 1998)	\$ 36,422	\$ 6,588	32.0 %	29.9 %
Dow Chemical ()	\$ 27,119	\$ 1,926	18.0 %	20.6 %
Machinery				
7 Deere ()	\$ 20,326	\$ 1,501	25.0 %	23.5 %
Case ()	\$ 9,042	\$ 94	3.0 %	15.3 %
New Holland ()	\$ 8,407	\$ 822	36.3 %	25.2 %
AGCO ()	\$ 4,325	\$ 89	6.2 %	17.1 %
Banking				
Bank of Montreal (Oct. 1998)	\$ 17,239	\$ 1,350	15.2 %	15.8 %
Bank of Nova Scotia (Oct. 1998)	\$ 15,949	\$ 1,394	15.3 %	14.6 %
Canadian Imperial Bank of Canada (Oct. 1998)	\$ 19,804	\$ 1,056	10.5 %	13.9 %
Royal Bank of Canada (Oct. 1998)	\$ 19,761	\$ 1,824	18.3 %	17.6 %
Toronto Dominion Bank (Oct. 1998)	\$ 13,194	\$ 1,121	14.9 %	14.8 %
Farmers				
Canada's 276,548 farms	\$ 29,648	\$ 367	0.3 %	0.7 %
Grain Handling				
8 Agricore (July 1998)	\$ 3,540	\$ 70	%	%
9 Cargill Ltd ()	\$ 75,588	\$ 688	%	%
10 Pioneer ()	\$	\$	%	%
Saskatchewan Wheat Pool (July 1998)	\$ 4,168	\$ 16	2.8 %	7.7 %
11 United Grain Growers (July 1998)	\$ 1,887	\$ 16	8.7 %	3.9 %
Railways				
Canadian Pacific (Dec. 1998)	\$ 10,247	\$ 801	10.3 %	7.0 %
Canadian National Railway (Dec. 1998)	\$ 4,315	\$ 109	2.8 %	2.5 %

Food Processing

11	Nestle (Dec. 1998)	\$ 76,457	\$ 4,572	19.7 %	21.5 %
	Phillip Morris ()	\$ 109,398	\$ 7,900	33.2 %	39.1 %
	H.J. Heinz ()	\$ 13,542	\$ 1,179	36.2 %	21.3 %
	Archer Daniels Midland ()	\$ 23,689	\$ 594	6.2 %	9.4 %
	Bestfoods ()	\$ 12,314	\$ 917	64.0 %	33.0 %
11	ConAgra ()	\$ 35,060	\$ 901	22.1 %	26.7 %
	Campbell's Soup ()	\$ 9,847	\$ 971	76.0 %	43.1 %
	Irving's ()	\$	\$	%	%
	McCain Foods (June 1998)	\$ 5,117	n/a	%	%
	RJR Nabisco Holdings ()	\$ 25,054	\$ -848	-7.2 %	3.2 %
	Sara Lee ()	\$ 29,428	\$ -769	-30.0 %	35.6 %

Beef and Pork Packing

	IBP ()	\$ 18,896	\$ 279	13.6 %	17.6 %
	Cargill Ltd. ()	\$ 75,588	\$ 688	%	%
12	Fletcher's Fine Foods (Dec. 1998)	\$ 233	\$ 4	5.5 %	not meaningful %
13	Maple Leaf Foods (Dec. 1998)	\$ 3,289	\$ -23	-6.3 %	4.8 %

Brewing and Beverages

	Coca-Cola ()	\$ 27,666	\$ 5,195	42.0 %	51.9 %
	Pepsico ()	\$ 32,864	\$ 2,930	31.0 %	25.4 %
	Cott (Jan. 1998)	\$ 1,481	\$ -7,706	-2.0 %	4.3 %
	Molson Cos. (May 1998)	\$ 1,315	\$ 111	11.8 %	1.1 %
	Labatt's/Interbrew ()	\$ 6,200	\$ 327	16.6 %	%

Cereal

14	Kellogg ()	\$ 9,944	\$ 739	53.0 %	41.6 %
	General Mills ()	\$ 8,872	\$ 620	222.0 %	151.8 %
	Quaker Oats ()	\$ 7,122	\$ 419	165.0 %	-20.0 [77.0] %

Food Retailing

	George Weston Ltd. (Dec. 1998)	\$ 15,161	\$ 773	37.3 %	17.8 %
	Safeway ()	\$ 36,005	\$ 1,186	26.0 %	33.8 %
	Empire Co. (Sobeys) (April 1998)	\$ 3,404	\$ 88	17.9 %	11.1 %
	Metro-Richelieu Inc. (Sept. 1998)	\$ 3,659	\$ 65	20.5 %	21.9 %
	Pattison/Overwaitee ()	\$ 4,400	\$	%	%

Restaurants

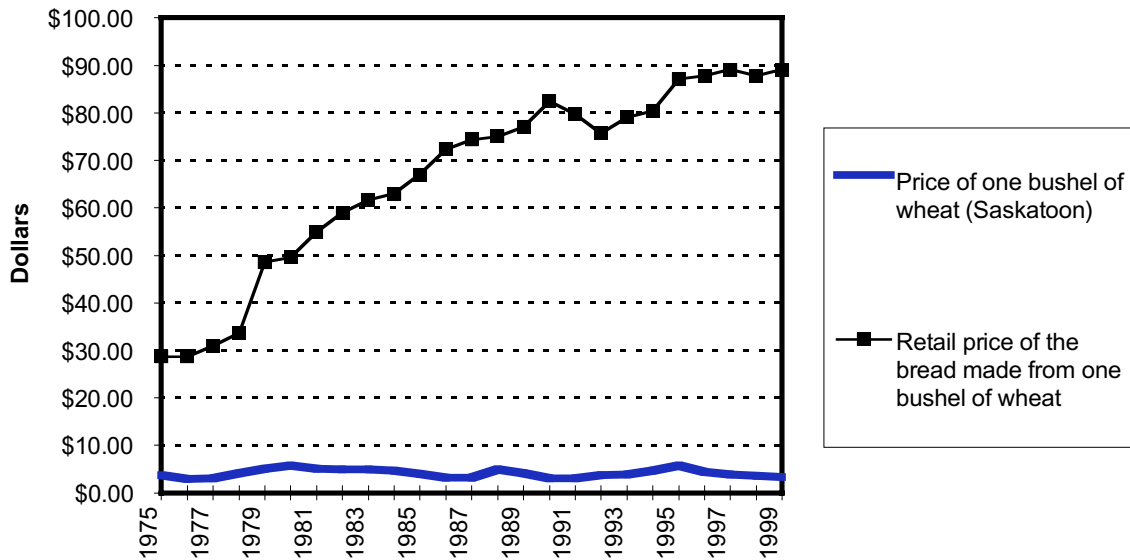
15	McDonald's ()	\$ 18,266	\$ 2,279	16.0 %	17.8 %
	Darden Restaurants (Red Lobster/OliveGarden) ()	\$ 4,833	\$ 150	10.0 %	%
16	Tricon Global Restrn'ts. (KFC/Pizza Hut/Taco Bell) ()	\$ 12,452	\$ 654	—	%
	Wendy's International (Tim Horton's) ()	\$ 2,864	\$ 219	13.0 %	13.3 %

All figures in millions of Canadian dollars (except percentages)

- 1 Imperial Oil -70% owned by Exxon Mobil
- 2 Shell Canada -78% owned by Royal Dutch Shell
- 3 Petro-Canada -18% owned by the Canadian Gov't
- 4 Canadian Fertilizers Ltd. is a joint venture of Western Co-operative Fertilizers Ltd. (Agricore and SWP) and CF Industries (a consortium of U.S. co-operatives). Financial data was not available in time for this brief.
- 5 Saskferco is 50% owned by Cargill and 49% by the Gov't of Sask. Financial data was not available in time for this brief.
- 6 Aventis was formed in 1998 through the merger of Rhône-Poulenc and Hoechst.
- 7 Case and New Holland merged as of November 1999.
- 8 Agricore is a co-operative. 1998 revenue and profit data is the summation of Manitoba Pool Elevators and Alberta Wheat Pool revenues.
- 9 Cargill Ltd. is a privately-owned company.
- 10 Pioneer is privately owned by James Richardson International. No data is available for either entity.
- 11 Archer Daniels Midland and ConAgra are listed under processors. United Grain Growers is 42% owned by Archer Daniels Midland
- 12 Fletchers is 45% owned by Saskatchewan Wheat Pool.
- 13 Maple Leaf is 33% owned by the McCain family.
- 14 Quaker Oats in 1997, Quaker took a one time loss on its sale of Snapple beverages. Taking this year into account, the five year average return on equity is -20%. Excluding this year return on a four year return on equity of 77%. The reader can decide which is more illustrative of this company's actual profitability.
- 15 Darden Restaurants Inc. was created in 1995 through a spin-off of General Mills' restaurant operations. Thus, five year data is unavailable.
- 16 Tricon was a wholly-owned subsidiary of Pepsi before 1997. Return on equity numbers are not available.

Commodities and food flow this way

Figure 4: Wheat and Bread Prices: 1975-99



Source: *Consumer Prices and Price Indexes*, Statistics Canada Cat. # 62-010 and *StatFacts* 10.03, Saskatchewan Agriculture and Food.

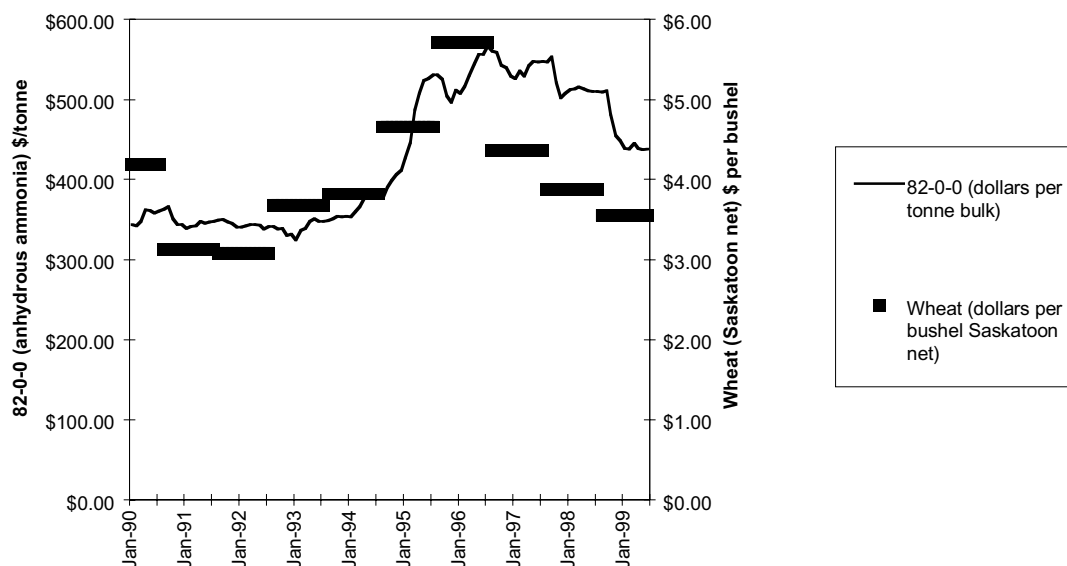
In 1998, Campell Soup made a profit of \$971 million and a return on equity rate of 76%. Philip Morris, the world's largest food, beverage, and tobacco company, earned \$7.9 billion in profits and a 33% return on equity. Another processing giant, ConAgra (Butterball, Hunt's, Orville Redenbacher, Healthy Choice, Knott's Berry Farm, Wesson, barley malting, grain handling, input sales, etc.) made \$901 million in profits and a 22% return on equity.

Some companies lose money and record negative return on equity rates in a given year. Recently, this has been the situation for some Canadian grain companies. In 1999, Sask. Wheat Pool lost \$12.9 million (SWP's year end is July, 1999). This is not the norm, however. Sask. Wheat Pool's average return on equity for the previous five years (1994-98) was 7.74%. Unlike farmers, the huge

agribusiness corporations that make up the bulk of the agri-food production chain consistently enjoy high and positive returns on equity.

Consumers pay trillions of dollars for food. The prices they pay increase each year. The corporations that make, transport, package, process, and sell the food make billions in profits. The corporations that make tractors, fertilizer, and pesticides make billions. There is no shortage of money in the agri-food system; there is merely a maldistribution of money. The farm income crisis is caused by that maldistribution, not by EU subsidies. Agribusiness corporations earn 5%, 10%, 20%, and higher returns on equity. If farmers earned just a 5% return on their equity, Canadian realized net farm income would be \$9.3 billion in 1999 instead of the projected \$2.8 billion. Even a 3% return would

Figure 5: Wheat and Anhydrous Ammonia Fertilizer Prices: 1990-99



Sources: *Alberta Average Farm Input Prices*, Alberta Agriculture, Food, and Rural Development. *StatFacts*, 10.03, Saskatchewan Agriculture and Food

largely solve the problem. *If farmers enjoyed returns on equity comparable to those enjoyed by other players, there would be no farm income crisis.*

Profits and market power

Firms wielding immense market power squeeze farmers from both sides. We will begin by looking at examples in the “downstream” side of the food chain. The market power of the retailers, processors, railways, and grain companies that dominate the downstream side of the agri-food chain allow them to take large and increasing portions of the consumer’s grocery store dollar and, hence, large profits. See Figure 4.

Processors and retailers can reach into the food system revenue stream and extract very high returns. As their power increases, less money makes it back to the farm level. In 1975, 13% of the retail value of bread went

to farmers; today, a mere 4% does. The farmers’ decreasing share is a direct result of processors’ and retailers’ increasing market power. The farm income crisis is caused by these firms using their market power to take an ever larger share of the grocery store dollar and, thus, to choke off the flow of money to farmers.

Farmers are also squeezed from the other side of the food chain by powerful input suppliers. When an abnormally large amount of money does make it back to the farm level, the large size and small number (i.e., the market power) of the machinery, fertilizer, and chemical companies that dominate the input side of the agri-food chain allows them to quickly snatch those increased returns out of farmers’ pockets.

During the 1994/95 and 1995/96 crop years, Canadian crop prices rallied. Wheat prices increased from \$3.82 in 1993/94 to \$4.66 in

1994/95 and \$5.71 in 1995/96.¹⁸ Prices for corn, soybeans, and other crops increased similarly. Input suppliers moved quickly, however, to extract a very large portion of farmers' increased returns. Figure 5 charts wheat price increases and anhydrous ammonia (nitrogen) fertilizer price changes.

As grain prices moved up, fertilizer companies increased prices in step. Fertilizer companies priced according to what the market would bear and used their market power to extract increasing returns from farmers. Fertilizer prices rose 75% while the cost of producing it, mainly the cost of natural gas, remained unchanged. Companies in other input sectors raised their prices in a similar manner.

Since 1974, farmers have tripled their gross incomes while their net incomes have declined. The explanation begins to emerge when one learns that, over the same period, farmers' expenses increased fourfold. Seen another way, since 1974, gross farm income has increased from \$9 billion to \$29 billion. *Corporations which sell inputs used their market power to capture 100% of that increase.*

The market power of retailers, processors, grain companies, and railways means that little money makes it back to the farm; the market power of chemical, fertilizer, seed, and machinery companies means that little of what makes it back, stays.

Hog farmers: a case study in the effects of market power imbalance

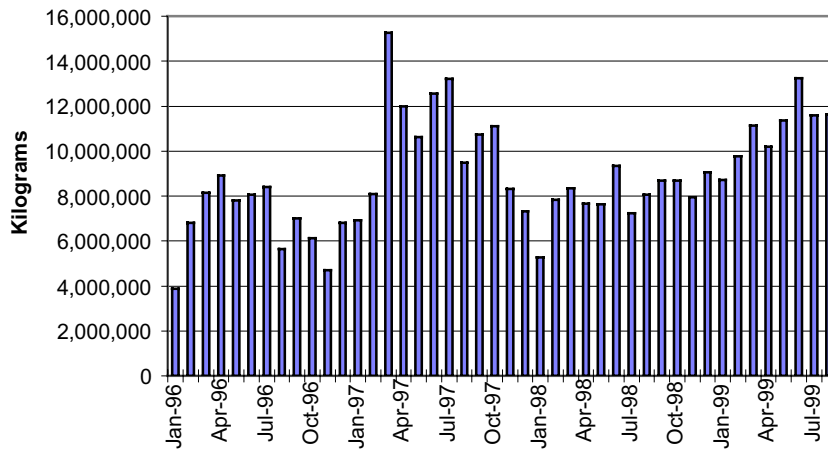
Canadian hog farmers have been hard hit by falling prices. The price decline began in October of 1998 and has continued over the following year. At its worst — November and December 1998 — hog prices fell to \$25/hundred pounds (cwt) (dressed weight) in Manitoba and \$22/cwt in Ontario. These prices are down markedly from the \$70-\$90/cwt range for the same months in previous years.¹⁹ While current prices have improved from their lowest levels, they remain below \$60/cwt — far below the cost of production and \$20 below recent averages.

Political leaders, many economists, and the media blamed the hog situation on oversupply and the collapse of the Asian market. Figure 6 paints a more ambiguous picture. Canadian pork exports to Asia did decline, but they did so almost a year before the price collapse. By the October 1998 beginning of the hog price crisis, exports had recovered significantly and have since risen to levels surpassed only by four months of record exports in 1997. Exports for 1999 were far above 1996 levels, yet prices were far lower. It is hard to believe that a relatively small change in Asian exports, a market that consumes just 7% of Canadian pork annually, could cause prices to fall far below anything seen in the previous 23 years.

Table D: Pork Links vs. commercial system

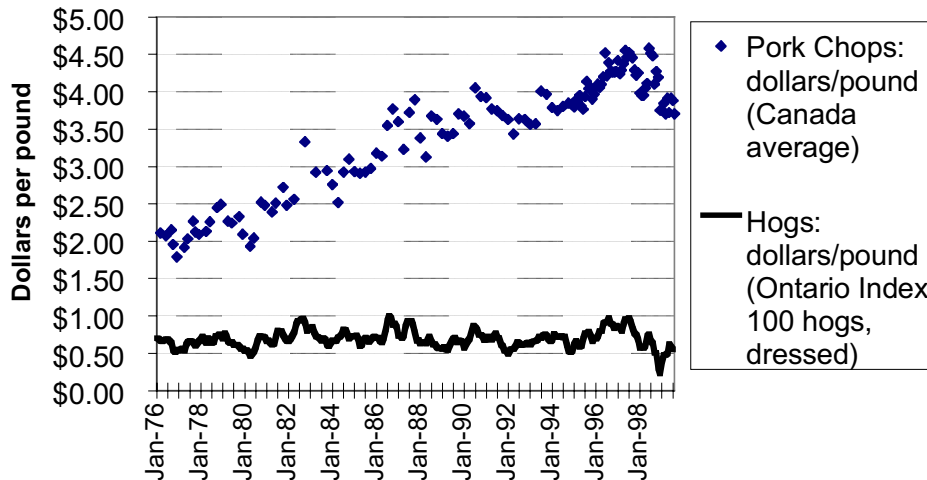
	Commercial system	Pork Links
Farmer's price	\$100-\$120	\$217
Processor (cut & wrap)	unknown	\$80-\$95
Retailer's share	unknown	n/a
The consumer pays	\$450	\$307

Figure 6: Canadian Hog/Pork Exports to Asia: 1996-99



Source: Data provided on request from Agriculture and Agri-Food Canada: Trade Evaluation and Analysis Division.

Figure 7: Hog and Pork Chop Prices: 1976-99



Sources: *Consumer Prices and Price Indexes*, Statistics Canada Cat. # 62-010 and *Livestock Statistics*, Statistics Canada Cat. # 23-603.

Table E: Packer profits during hog price downturn (millions of dollars)

	1996 Annual	1997 Annual	1998 Annual	Oct/Dec 98	Jan/Mar 99	Apr/Jun 99	Jul/Sep 99	Past four quarters
Maple Leaf	\$42	\$47	(\$23) loss	\$19.2	\$10.1	\$23.3	\$20.3	\$72.9
Fletcher's	\$0.6	\$6.1	\$3.7	\$4.2	\$1.6	\$(0.7)	\$1.2	\$6.3

Nor is the hog price downturn easily explained by looking at the retail price of pork. Figure 7 demonstrates that, while hog prices have remained the same over the past 23 years, packers and retailers have used their market power to increase the price of pork chops to the consumer by over 200%.

The current industrial pork production, processing, and distribution system is treating neither farmers nor consumers fairly. Farmers are forced to accept hog prices far below the cost of production and consumers are asked to pay ever-increasing prices for pork.

Early in 1999, the National Farmers Union began working with its partners on a project called "Pork Links." In the midst of record-low hog prices, the Saskatoon Child Hunger and Education Program (CHEP), the Council of Canadians, and the NFU helped link family farm hog producers directly to urban consumers (many on low incomes). The program continues to grow and its economics are enlightening. Urban families can buy locally-grown pork at a 33% saving, and rural families can sell hogs at *twice* market price.

The Pork Links program, like the comparison of grocery store pork and farm-gate hog

prices (see Figure 7), demonstrates that hog farmers are receiving a tiny and declining portion of the grocery-store dollar. If hog farmers had maintained the 30% share of the grocery-store dollar that they enjoyed in the 1970s, current hog prices would be \$1.10-\$1.20 per pound (versus the 22¢ to 60¢ farmers received over the last year) and consumer prices would not be a penny higher than they are now. Seen another way, on the 21 million hogs marketed in an average year, *a 30% share of the grocery store dollar would mean an additional \$2.1 billion annually to hog farmers in increased farmgate returns.*

Like the grain price downturn, analysts often point to an oversupply of pork and hogs as the cause of the past year's price declines. If we grant, for the moment, that oversupply was the cause, it is instructive to look at how the other links of the pork production and distribution chain fared during this alleged glut of pork.

Maple Leaf and Fletcher's are two of Canada's largest pork packing companies. The pork price crisis began in the fourth quarter (Oct.-Dec.) of 1998 and continue for two years. Low prices have forced hundreds, possibly thousands, of Canadian farmers out of hog production. Table E lists profits for Fletcher's and Maple Leaf.

For the 12-month period of fiscal 1996, Maple Leaf made \$42 million in profits. In 1997, it made \$47 million. In 1998, it lost \$23 million. In the most recent 12 months for which information is available (Oct. 1998 to Sept. 1999) — a period that overlaps the worst part of the hog price crisis — Maple Leaf earned record profits of \$72.9 million.

In its first quarter (Jan.-Mar. 1999) report, Maple Leaf alludes to low pork prices as a significant factor in its profitability, stating: “Maple Leaf Pork benefited from favourable commodity markets.” In its second quarter (Apr.-June 1999) report, Maple Leaf notes that “Maple Leaf Foods International recorded excellent results due to strong demand from global markets, particularly in Asia.” In its third quarter (July-Sept. 1999) report, Maple Leaf says: “The Meat Products Group and the Agribusiness Group both reported strong year-over-year earning increases.” Maple Leaf’s “Agribusiness Group” sells animal feed, including hog feed. In that same report, Maple Leaf also credits its profitability partly to “strong pork sales into Japan.”

Similarly, Fletcher’s Fine Food recorded profits of \$6.3 million for the 12-month period that overlaps the hog price crisis. This significantly exceeds the average profit for the previous three years (\$3.5 million). The \$6.3 million in profit works out to a return on equity of approximately 7.7%.

However, Fletcher’s management is not completely satisfied with its profits. Surprisingly, CEO Fred Knoedler cites “a shortage of hogs in Western Canada” as one factor holding back Fletcher’s revenues and profits (November 10, 1999 news release). The hog price crisis becomes “curiouser and

curiouser” when one learns that farmers are suffering due to hog surpluses and packers due to hog shortages.

The pain of the hog price crisis is not spread equally among all the participants in the hog/pork markets. Farm families wrestle with bankruptcy while packing plant stockholders enjoy record incomes. Record packer profits seem inconsistent with the contention that there is a glut of pork on the market or that export markets are closing. Record profits are, however, consistent with the contention that increasing market power allows packers to take lavish profits while, at the same time, pushing down prices to farmers and wages to workers. Canadian packers have also forced workers to take a 40% wage cut. The two main costs in a packing plant are pigs and people. Packers are getting their people 40% cheaper and their pigs up to 25% to 50% cheaper. Thus, record profits are not surprising.

The WTO, trade agreements, and market power

Trade agreements such as the Canada-U.S. Free Trade Agreement, the North American Free Trade Agreement (NAFTA), and the World Trade Organization (WTO) agreement are designed, we are told, to level the playing field. A level field sounds desirable and fair. But is it sufficient?

Is a level field alone sufficient to give all players in the game an equal chance of scoring? What if some players are far larger and more powerful, perhaps a million times larger? The extreme imbalance in relative profitability obvious in the current agri-food system comes despite an increasingly level playing field. If the aim is to solve the farm

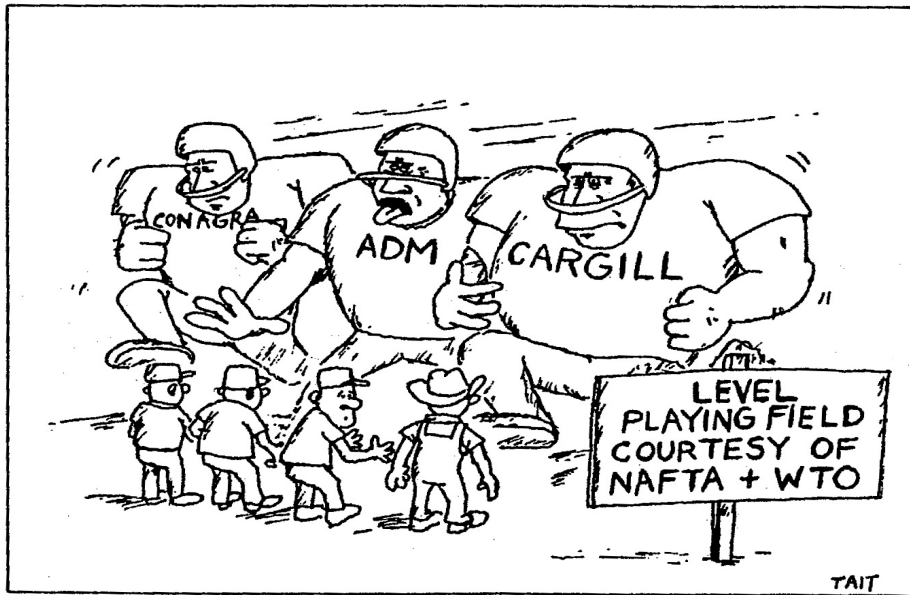


illustration by Chris Tait

income crisis and ensure that farm families and rural communities can survive and prosper, governments and others should focus, not on the tilt of the field, but on the size of the players.

By levelling the playing field, it is not just that the WTO and other trade agreements *ignore* the size of the corporate players. By erasing borders and globalizing markets, these agreements enable and encourage the already-dominant players to grow ever larger. Corporations merge and take over competitors in an attempt to “maintain global competitiveness.” Canadian banks tried to do so; Cargill and Continental, Case and New Holland are doing so.

WTO negotiations hold few solutions for farmers. They will neither end subsidies nor solve the farm income crisis. They may level the playing field but at the same time they will craft rules that allow for, and encourage, larger, more powerful players. And these negotiations threaten the few protec-

tions farmers now have — marketing agencies and effective safety net programs. Corporate power is the cause of the income crisis: the WTO negotiations are aimed at vastly increasing that power. The effects on farm families are easily predictable.

The market power imbalance and the farm income crisis: conclusion

Farmers have been forced to accept the vast majority of the risks in the food production chain — weather, commodity prices, insects, and market collapse — and have, at the same time, been largely excluded from participating in the profits. Because large, urban-based corporations take the profits before they can make their way back to farms and rural communities, those farms and communities are becoming poorer and less numerous. There were 430,522 Canadian farms in 1966. Today, only 276,548 remain. We falsely call this a crisis, as if it is an unintended consequence. In reality, low farm incomes and rural depopulation are integral

parts of the agricultural market structure that corporate executives and policy makers in Canada and around the world have created.

Traditionally, farmers relied on governments to regulate the marketplace. Unfortunately, the rapid increase in the size and power of agribusiness corporations has been accompanied by a marked decrease in governments' willingness to oversee or regulate the markets in which those corporations operate. Governments enthusiastically sign trade agreements which tie their hands at the same time that globalization has fostered an explosion in corporate growth, wealth, and power. Thus, having little *market power* and with politicians increasingly hesitant or unable to use *political power*, farmers have watched their incomes and prospects decline sharply over the last two decades.

If our federal government remains unwilling to consider the possibility that the markets are failing, that deregulation and privatization are hurting farmers, and that extreme imbalances in market power make reasonable farm profit unlikely, then the problems outlined above — the problems at the root and heart of the farm income crisis — are insoluble. Government may dole out taxpayers' money to replace farm income dollars snatched by powerful transnationals but this will be merely a de-

laying tactic at best. The Canadian government — if it continues to pursue policies that turn farmers over to unbalanced and dysfunctional markets — will preside over the end of the family farm, the depopulation of rural Canada, and the betrayal of generations of Canadians who worked the land and built the nation.

Most corporate executives, journalists, economists, and politicians point toward false problems and encourage farmers toward false solutions. Farmers are encouraged to blame themselves, farmers across the border or across the sea, their marketing agencies, their own government, or foreign governments. Thus, farmers have dissipated their energies fighting among themselves, bewailing their governments, and attacking agencies which give farmers some power in the marketplace.

Those who argue that EU subsidies cause the farm income crisis are the most recent in a long line of those who invoke false problems in an attempt to deflect farmers toward false solutions. The real problem for farm families is an imbalance in market power and a resulting imbalance in the distribution of profits in the agri-food system. For 25 years, political and corporate leaders have succeeded in sabotaging farmers' attempts to understand and solve that problem. That must now change.

Afterword

The Corporation: The Dominant Institution of our Time

By Murray Dobbin

There is scarcely any Canadian citizen who hasn't heard of the plight of farmers in this country — and not just prairie grain farmers but all farmers right across the country. And yet this very real crisis, with commodity prices lower now than at any time since the great Depression, seems at odds with other facts. Between 1974 and 1994 Canadian farmers succeeded in dramatically increasing their productivity and they tripled their gross income from \$9 billion to \$29 billion. If almost any other sector of the economy had achieved that kind of growth, the producers — the owners — would be wealthy or at least doing well.

So what is going on here?

Farmers, one of the few genuinely “free market” sectors left in Canada, with tens of thousands of individual “enterprises,” have to do business with some of the world's largest monopolistic companies. Whether purchasing production inputs or selling their products, farmers are virtually powerless to determine the prices they pay or the prices they receive. And so those monopolistic corporations, using their tremendous economic and political power, simply appropriated 100% of the \$20 billion increase in gross farm income. What did the farmers get for their

consolidation, increased mechanization, sophisticated business practices and scientific approach? Nothing. Not one cent.

It's brutally simple. One of the more recent examples was when farm prices actually recovered briefly in 1995-1996. Much of the increased revenue was taken by the companies providing inputs to farmers. Fertilizer companies simply increased their prices by 75% even though there were no increases in the cost of their inputs, such as natural gas. Corporations in the other input sectors similarly increased prices because they had the power to do so. It had nothing to do with “free enterprise,” “the market” or “supply and demand.” It had to do with bald corporate power. Monopolies and near monopolies set prices at whatever level they choose because they can get away with it.

In Canada, the food industry is controlled by a ever-diminishing number of large corporations. As this study points out, three companies dominate the fuel industry; three fertilizer companies control 71% of production, nine make virtually all of the pesticides and herbicides, four control the seed market, three the farm machinery sector. At the other end two railways control grain transportation, nine grain companies control marketing (and they will soon be four), two dominate meat packing, and five corporations dominate food retailing.

Farmers face what is perhaps a unique struggle with giant corporations. But no matter where we turn these days we all come face to face with an institution that increasingly

dominates our lives: the corporation, or more specifically the transnational corporation. The machinations of corporations — mergers, takeovers, expansion, “downsizing” — dominate the news and not just the business news. The media is full of business news and even the CBC, our supposedly public broadcaster, seems as obsessed with business as its all news channel. Newsworld, has stock market reports and interviews with investment advisors and stock market gurus four or five times an hour.

Giant corporations, more and more, decide what we see as entertainment, what gets defined as news, what technology gets developed, which university departments will get funded, where jobs will go and which political parties will thrive. The so-called “corporate citizen” is a super citizen with rights that no flesh and blood citizen could ever dream of having. The corporate citizen never sleeps, has virtually unlimited resources, can commit horrendous crimes and never go to jail, and increasingly operates as if the other side of the citizenship coin — responsibilities — simply does not exist.

None of this, it could be argued, is very new. Corporations, in one form or another, have been a powerful force in our lives for centuries. Much of Canada actually began as a corporation when the Hudson’s Bay Company had state powers over vast stretches of the Northwest. But in the past 25 years there have been fundamental changes in the structure and strategy of the largest corporations and at the same time a sea change in how they have defined their role in liberal democratic societies. Both these changes have led to an enormous increase in the power of corporations and their determina-

tion to use that power in the narrow interests that define what a corporation is.

The terms multinational corporation (MNC) and transnational corporation (TNC) are often used interchangeably but it is useful in understanding the current conjuncture of global forces to examine the differences. They are the heart of the current form of the corporation. The multinational corporation has been around at least since the turn of the century but became a dominant trend in the post World War II period. A corporation, typically based in the U.S. or Europe, would set up complete operations in several countries, virtual copies of their structure in their home countries. Production facilities, a local board of directors, advertising and marketing which adapted to the local culture, stable relationships with local suppliers, and integration into the community were all typical features of the MNC. In many substantive ways they were indistinguishable from Canadian corporations.

Transnational corporations (TNCs) have taken global capitalism to the next logical phase: truly global entities creating and serving global markets in a borderless world. These behemoths focus on the wealthiest 15-20% of the world’s population, those with enough disposable, discretionary income to buy their products. Where transnationals depended on healthy domestic economies — including low unemployment — TNCs have moved beyond discrete, national economies. Where MNCs had to adapt their advertising to local cultures, TNCs push global products and sell the culture of consumerism, explicitly taking on genuine culture as an adversary. For the modern TNC, culture is seen as a barrier to trade, which explains the ferocious response of the Ameri-

can entertainment industry to Canada's moderate protection of its magazines.

The TNC typically produces in countries where labour is cheapest or environmental laws the most lax; they used "transfer pricing" to declare their profits in countries with no or low corporate income tax rates; in most countries they simply have marketing and distribution operations to sell their products. Their nominal head office focuses on strategic planning, coordination of global production, and corporate governance. In addition, the TNCs externalize as many of the costs of production as they can, as exemplified by Nike which produces no shoes itself. Contracting out production also contracts out the risk. Producing in Mexico, where environmental laws are rarely enforced also "externalizes" the normal cost entailed in clean production methods because Mexican citizens and communities pay the price for a polluted environment.

The second profound change that makes corporations the dominant institution of our era is the ideology that drives the current corporate agenda. While there is never complete unanimity amongst the corporate and political elites, those elites developed a new consensus in the mid-1970s that established the current political context for transnational corporations. That new elite consensus was no secret, though it was certainly not talked about in the mainstream media. It was and still is called the Washington consensus and it explicitly tore up the old post-war "social contract" and replaced it with a set of objectives and strategies guided by neo-liberal economics.

The old social contract, also referred to as the historic compromise, was forced on cor-

porations by the depression-era struggle of ordinary citizens, union members and farmers. The more visionary amongst the corporate leaders realized that if they didn't allow for change, there might well be revolution. The Russian revolution was still fresh in their minds. As a result the world's, including Canada's, most powerful corporate leaders decided that democracy — specifically, some of the fruits of democracy — would be accepted as a normal and legitimate cost of doing business.

While they did so grudgingly all the way, corporations accepted the legalization of unions, the advent of labour standards and safe working conditions, workers compensation and unemployment insurance and other measures empowering labour and marketing boards to empower farmers. They saw the benefit to themselves of social stability, and the cost-saving of having the state pay for education, medicare and other services that helped create a productive work force.

The contract was simple enough. Corporations and the elite that their wealth created, would accept all these things so long as the return on their investments remained at reasonable levels. And they did just that throughout the post-war periods through the 1950s and most of the '60s. Then profits began to decline seriously and they did so just as democracy and the power of ordinary citizens actually reached its peak — movements of women, Aboriginals, students, poor people and anti-war activists joined strong labour organizations and were achieving real success in expanded social programs and wealth redistribution and real political power.

When the oil crisis hit in 1973 and prices skyrocketed, profits went through the floor and the leading corporate figures decided that the social contract had expired. The deal was off. Except they never said so publicly or in any democratic, open forum. Instead they decided amongst themselves that democracy had to be cut back, downsized. To accomplish this they formed a wide range of corporate organizations each with slightly different but complementary roles.

In an 18-month period in Canada corporate leaders and corporations formed the organizations that are now all too familiar to us: the Fraser Institute, the Business Council on National Issues (the 150 largest corporations in Canada), and the National Citizens Coalition. And in the U.S. it was the Business Roundtable and internationally, the Trilateral Commission (TLC). In fact every English-speaking developed country went through the same process with corporations determined to regain the power they had enjoyed in the pre-war period.

The Trilateral Commission (TLC) was formed as a very private, if not quite secretive, forum where men of influence could discuss the future of the world — and help determine it — away from the glare of parliaments, citizens and the media. The most powerful CEOs, former government leaders, senior bureaucrats, prominent academics, met each year and planned the future of capitalism and democracy.

If you want to get an idea of how far these corporate leaders wanted to go you just have to examine how they described the problem. One of the TLC's first publications was "The Crisis in Democracy." One of its authors, American Samuel Huntington, had this to

say about the crisis: "Al Smith once remarked that the 'the only cure for the ills of democracy is more democracy. Our analysis suggests that instead, some of the problems of governance in the U.S. today stem from an excess of democracy.'" Huntington pined for the days when "Truman had been able to govern the country with the cooperation of a relatively small number of Wall Street lawyers and bankers." Noting that those days were over by the early 1970s, he continued by lamenting the public's questioning of "...the legitimacy of hierarchy; coercion, discipline, secrecy and deception all of which are in some measure the inescapable attributes of the process of government."

The implications of this complaint are not hard to determine: if there is too much democracy then the solution is to determine ways of cutting back on democratic activity and democratic rights. Huntington stated that a "governable" democracy requires "apathy and non-involvement" on the part of marginalized groups such as "...blacks, Indians, white ethnic groups, students, and women..." just about 80% of the population. That leaves democratic governance to the elite that Huntington served and whom he hoped would once again govern in the interests of capitalism.

Getting rid of "excess" democracy

Corporations have always tried to limit democracy where they are not trying (as they did in Chile and dozens of other countries) to eliminate it altogether. Liberal democracy is, after all, the classic oxymoron — the marriage of hostile opposites. For democracy at its core is equality and the classic economics definition of liberal is the market — as

unequal an institution as can be imagined. There is and has to be constant tension and conflict between these two principles.

The old way of limiting democracy was for corporations to intervene directly in the democratic process by funding political parties and thus actually controlling a key part of the institutional structure of democracy. But the popular franchise was not so easily controlled and corporations also constantly monitored what governments were doing. Whenever the corporate interest was threatened in any way, individual corporations, their associations or broader corporate lobby groups would intervene directly at the political or senior civil service level to eliminate or moderate the threat.

But this was the old social contract style of corporate intervention. It implicitly, if grudgingly, acknowledged the legitimacy of the system. They did all they could within the rules of the system to make their influence felt but the law-making powers of governments meant they did not always win. Indeed, the social contract was jettisoned largely because this form of controlling the state was failing. The elites, with their new consensus in hand, had to find a better way.

Short of a military coup and the outright elimination of democratic institutions, or radical constitutional change (itself requiring democratic action), permanently altering the scope of democracy is difficult to achieve. But not impossible. In the early '80s the dominant corporations behind the Washington Consensus began planning what became popularly known as free trade agreements. These were treaties but they were treaties with a difference: designed to explicitly benefit an extremely narrow range

of societal interests and with powerful enforcement measures.

The core character of treaties, of course, is that by their very nature they trump domestic laws and regulations. In fact that is exactly what they are meant to do. Signatories come together and agree on a set of rules and principles through which they pledge to filter all their relevant laws and regulations. When treaties are about human rights and climate change, citizens and the environment benefit from this restriction on national sovereignty. But trade agreements put laws and regulations made domestically in the interests of communities through the extremely narrow filter of trade and investment thus capturing any government activity negatively affecting corporate interests. These are corporate treaties and their purpose is to protect property rights, not human rights.

It's not about trade

Trade agreements are only nominally about trade and even the first of these new deals, the Canada-U.S. free trade agreement, was signed at a time when over 90% of trade between the two countries was tariff free and the rest had tariffs of less than 5%. The deals are much more about the movement of capital and the removal of restrictions and regulation on that movement. The FTA saw the permanent loss of over 200,000 manufacturing jobs as the agreement not only permitted but encouraged corporations to move to cheaper labour locations such as the Southern U.S. or Mexico. It wasn't about trade — it was about production and production costs and the rights of capital.

The NAFTA took free trade one step further

in its Chapter 11 clause which gave corporations enormous powers over the authority of sovereign governments to pass laws and regulations governing the behaviour of capital. Chapter 11 permitted corporations to effectively “sue” governments if they changed the conditions of the corporation’s original investment. Chapter 11 invented the notion of “regulatory expropriation.” Ordinary expropriation, dealt with through Canadian courts, was restricted to the actual “taking” of property. But Chapter 11 “taking” meant that if a corporation lost profits — including future profits — because a government passed a new regulation or law, it could sue for compensation equal to those lost profits.

The most famous Canadian case involving Chapter 11 was the Ethyl Corporation case where Canada’s decision to ban the use of the neuro toxin and environmental pollutant, MMT was challenged as “expropriation.” In the middle of the NAFTA panel’s deliberations, Canada threw in the towel, realizing that it was going to lose. Instead of risking a penalty in the hundreds of millions, it settled for US\$13 million — apologized to Ethyl, and reversed the ban. While no other law has been successfully challenged in Canada, this is largely because of the chill effect: We have no idea how many environmental laws have been considered in federal and provincial jurisdictions but abandoned because they were determined to be in violation of NAFTA.

In effect, NAFTA and similar trade deals mean that such public policy choices are no longer even debated, they never see the light of day. As someone said, they are smothered in their cribs by trade deal gate-keepers working in virtually every department of

every government in Canada, the U.S. and Mexico.

Trade deals like the FTA, NAFTA, the upcoming Free Trade Area of the Americas and the sixteen or so agreements of the WTO give already enormously powerful corporations even greater power. Indeed one of the most effective counterbalance to the power of corporations is the power of the state, the power of unions, the power of marketing boards and other organizations. And while citizens are rightfully angry over the betrayal of governments and their current efforts to reverse decades of egalitarian policies, the state remains the most comprehensive expression of organised citizen power. We easily lose sight of the fact that the modern state is the modern expression of community — the use of the aggregate power of individual citizens in the interests of the community.

The power of corporations to manipulate and control markets is now enormous and because of the handcuffs placed on governments by trade deals, it is growing exponentially. With rare exceptions, such as the case against Microsoft, even the notion of preventing the mega-mergers now reported on a daily basis has disappeared. The result is that in almost every significant industrial sector worldwide, the so-called free market is actually highly monopolistic. If half the global market is controlled by just five or fewer firms, economists consider that market to be monopolistic. By the late 1990s twelve industrial sectors — including consumer durables, automotive, aerospace, electronic components, and steel were monopolistic. Oil, personal computers, and the media are not far from the monopolistic definition.

This definition of monopolistic is inadequate

to describe the situation farmers face in individual countries like Canada. While the various sectors affecting farming may not be “monopolistic” globally, they are clearly monopolistic in the only place that matters: the marketplace that individual farmers have to operate in. As described above, the agriculture sector in Canada is dominated, in all its sub-sectors, by mere handfuls of large firms.

The ability of such firms to increase prices at will in order to scoop up any increase in commodity prices proves the point. If there were scores of companies in the various input sectors, at least some would compete on price to gain market share, and in general, prices would reflect the raw materials costs that those companies face. But the only sector in the food chain characterized by many producers — millions world wide — is the farmers who actually grow the food. Here even the largest producer is dwarfed, thousands of times over, by the companies he or she has to deal with.

The domination of the world by the monopolistic practices of huge transnationals has done nothing to curb the rhetoric of the neo-liberal propagandists who continue to talk about the “free market,” free enterprise, open markets, and the exalted role of entrepreneurs. The romantic attachment to these notions aside, the reality is that such free markets characterized by countless competing firms, actually ended with industrialization. The notion that capital, labour, technology and raw materials are allocated by the “invisible hand” of the market is pure fantasy. The invisible hand has long since been replaced by the administrative coordination of corporate managers. As David Korten, author of *When Corporations Rule the*

World, put it:

Central management buys, sells, dismantles, or closes component units as it chooses, moves production units around the world at will, decides what revenues will be given up by subordinate units to parent corporation, appoints and fires managers of subsidiaries, sets transfer prices and other governing transactions among the firm’s component organizations, and decides whether individual units can make purchases on the open market or must do business with other units of the firm.

This puts the free market ideological hyperbole of business columnists, editorialists, and right wing political figures in its proper context. While they rail against any tendency of governments to “plan” the economy, the world is dominated by country-size corporations whose “central planning” capacity eclipses that of any country save the old command-economy structures of the former Soviet Union and east block states. The question isn’t whether or not there will be a planned economy with enormous powers to determine economic outcomes. The only question is in whose interests that planning and control will be exercised, shareholders or citizens.

There is a special irony in the myth that Darrin Qualman’s study so effectively debunks. This conventional myth — carefully fostered by the corporate media — is that government subsidies have distorted the market and driven prices down. The European Union members, France in particular, have been demonized for their price supports and subsidies. Yet in WTO negotia-

tions leading up to the failed Seattle round, France was arguing that agriculture should not be treated just like any other economic sector. In trade jargon it put forward the argument that the agriculture sector demonstrated “multi-functionality.”

In other words, France was demanding that the WTO and its negotiators recognize that agriculture included many non-economic features — cultural, social, democratic, and community — that had to be taken into account. It is a position that those opposing these destructive trade and investment treaties should find sympathy with. Within the French position is the kernel of what anti-WTO protesters are saying everywhere: These deals are made exclusively in the interests of transnational corporations and they destroy community, culture and social cohesion. Indeed, it should be argued that every economic sector is “multi-functional” — culture, energy, finance, health, education, municipal services, transportation, etc. — because all of them have impacts that go far beyond the simple economic.

In contrast, our own government has been engaged in a massive betrayal of its own farmer-citizens. Canada, whether through ideological zeal or sheer incompetence (we lost the Auto-Pact in part on a technical error made by our trade negotiators), has decided to lead the charge on eliminating these aspects of the farm sector from its negotiat-

ing position. Canada has been virtually alone among OECD countries in making these dramatic cuts.

The federal government has simply abandoned farmers to the mercy of the food industry monopolies. This is not only an outrageous betrayal of the whole farm sector; it is a stunningly inept negotiating tactic. Canada has now given away, voluntarily, the only negotiating tool it might have used in bringing some fairness and consistency to the global farm subsidy picture, sacrificing Canadian farmers on the alter of neo-liberal economics.

It is extremely unlikely that the WTO agriculture negotiations will put a serious dent in subsidies any time soon. Estimates of any real “progress” in this area puts the time line at 10 years. And in that 10 years, while Canadian farmers are told that relief is just around the WTO negotiating corner, the corporations which have a choke hold on farmers will continue to merge and swallow up their smaller competitors and that hold will tighten even more. Consumers will continue to pay more for food just as corporations pay less and less for the produce farmers put on the market. Farmers and consumers alike will see relief only when they, as active citizens, confront the real issue affecting all of them: the power of corporations to rule the world.

Appendix 1: World wheat and coarse grain stocks/use ratios:

Crop Year	Wheat Stocks/Use Ratio %	Coarse Grains Stocks/Use Ratio %
1999/00	21.9	17.0
1998/99	23.0	17.6
1997/98	23.8	15.6
1996/97	19.1	13.8
1995/96	19.0	11.3
1994/95	21.6	15.9
1993/94	25.3	14.8
1992/93	26.6	19.6
1991/92	23.0	16.6
1990/91	25.8	17.3
1989/90	22.7	15.7
1988/89	22.9	19.2
1987/88	28.6	26.7
1986/87	34.7	29.5
1985/86	34.8	27.3
1984/85	34.0	18.7
1983/84	31.3	14.8
1982/83	28.8	24.5
1981/82	25.5	20.6
1980/81	25.7	17.1
1979/80	28.1	19.3
1978/79	32.6	19.0
1977/78	27.6	18.4
1976/77	34.1	17.1
1975/76	25.0	14.9
1974/75	22.8	14.8
1973/74	23.1	12.2
1972/73	21.3	13.3
1971/72	26.6	16.6
1970/71	24.4	14.6
1969/70	32.2	17.5
1968/69	40.4	18.4
1967/68	34.7	18.1
1966/67	32.0	16.5
1965/66	21.9	16.4
1964/65	30.6	20.9
1963/64	29.8	23.5
1962/63	31.5	22.5
1961/62	30.0	23.6
1960/61	35.9	25.4

Sources:

1960/61-1964/65: *PS&D View*, United States Department of Agriculture, available online at: <http://usda.mannlib.cornell.edu/data-sets/international/93002/>

1965/66-1996/97: *StatFacts*, Saskatchewan Agriculture and Food, 10.06 [StatFacts cites USDA]

1997/98-1999/00: *World Agricultural Supply and Demand Estimates*, United States Department of Agriculture, January 12, 2000, www.usda.gov/oce/waob/wasde/latest.pdf

Appendix 2: Wheat, coarse grain, and total oil production: 1980-99

Table A (page 7) contains comparisons of trendline wheat production changes for various countries for the period from 1980 to 1999. When one calculates a trendline for 1980-99 wheat production changes one finds that production is up 42% in the EU, 44% in Australia, 26% in Argentina, 11% in Canada, and down 7% in the U.S.

As explained in footnote 11, the trendline percentages change depending on the year one chooses as the start year for the trendline calculation. The selection of 1980 is, to some extent, arbitrary. It gives a long time period — 20 years — but not so long that it confuses matters unduly by bringing major changes in technology into the equation.

The data in Table F demonstrates that where a start year other than 1980 is used, the subsequent numbers *better* serve to illustrate the point that production increases in the EU are matched or exceeded by non-subsidized countries.

For instance, if one looks at production changes on a trendline calculated over a ten-year (1990-99) period, EU production is up 14% while Argentina and Australia post increases of 39% and 84% respectively. Over any reasonable period that one could choose to measure relative production changes, EU wheat production increases are matched or exceeded by a significant number of non-subsidized countries. The same is true for coarse grains and total oils.

Table F: Percentage change in trendline wheat production using selected start years.

	Canada TREND	U.S. TREND	Argentina TREND	EU 15 TREND	Australia TREND
1980	10.96%	-6.93%	26.23%	42.05%	43.86%
1981	3.65%	-7.32%	17.93%	37.75%	34.07%
1982	2.46%	-2.33%	10.48%	30.40%	38.86%
1983	3.65%	4.07%	26.98%	25.74%	21.98%
1984	4.75%	6.59%	40.00%	20.35%	42.29%
1985	-2.11%	13.36%	61.93%	24.87%	59.07%
1986	-5.63%	18.75%	57.60%	23.06%	70.22%
1987	1.85%	17.50%	54.76%	21.13%	85.01%
1988	1.83%	16.08%	49.48%	17.60%	78.92%
1989	-16.95%	6.19%	39.16%	14.69%	81.46%
1990	-23.79%	-0.55%	38.72%	13.62%	84.48%
1991	-19.53%	10.12%	43.78%	14.68%	94.28%
1992	-12.01%	0.79%	39.95%	20.47%	64.26%
1993	-4.02%	4.53%	32.14%	22.22%	71.60%
1994	1.11%	7.79%	18.26%	17.66%	83.81%
1995	-8.17%	9.24%	12.73%	11.18%	19.80%
1996	-15.30%	1.98%	-24.71%	0.87%	-2.76%
1997	2.98%	-6.90%	-14.95%	2.24%	15.87%
1998	2.46%	-9.56%	10.43%	-6.88%	7.14%
1999	0%	0%	0%	0%	0%

Those wishing to see the production data for these and other countries can visit the internet website:

<http://jan.mannlib.cornell.edu/data-sets/international/93002/> or contact the National Farmers Union.

Notes:

1. Agriculture and Agri-Food Canada, *Farm Income, Financial Conditions, and Government Assistance Data Book*, January 2000 update: <http://aceis.agr.ca/policy/epad/english/fi4cast/fiindx.htm> Realized net income (as opposed to total net income or net cash income) is the most stable and accurate measure of farmers' net income.
2. Saskatchewan Agriculture and Food, *Federal Income Support for Saskatchewan Agricultural Producers*, October 1999.
3. All stocks/use data from United States Department of Agriculture (USDA). See Appendix 1 for a complete listing of stocks/use ratios.
4. Reliable stocks/use data is available from the United States Department of Agriculture going as far back as 1960/61 — 40 years. Before that, reliable data is unavailable from any source. Thus, while recent levels are the lowest recorded in the period for which there is reliable data, they may be the lowest over an even longer period.
5. See note 4.
6. Agriculture and Agri-Food Canada, *Bi-weekly Bulletin*, Sept. 4, 1998
7. Wheat, coarse grain, and total oils production data courtesy of USDA. Data can be accessed at: <http://jan.mannlib.cornell.edu/data-sets/international/93002/>
8. These numbers change depending on what year is chosen as the start year for the trendline calculation. The selection of 1980 is, to some extent, arbitrary. This interval gives a long time period — 20 years — but not so long that it confuses matters unduly by bringing major changes in technology into the equation. Appendix 2 lists comparable trendline values for a range of possible starting years. Those who care to look at that appendix will note that in most cases where a year other than 1980 is used, the resulting numbers *better* serve to illustrate the thesis of this brief.
9. February 4, 2000 net price at Saskatoon (AgPro) for immediate delivery was \$5.33/bushel.
10. U.S. and EU subsidy estimates courtesy of the Canadian Wheat Board. All figures in this paper in Canadian dollars, at a conversion rate of 68¢ to the U.S. dollar.
11. *Fertilizer Production Capacity Data: Canada*, Canadian Fertilizer Institute, December 1999. Percentages based on 12,793 million tonnes of annual nitrogen fertilizer production capacity. This figure includes total production capacity of plants producing ammonia, urea, ammonium sulphate, ammonium nitrate, urea ammonium nitrate solution, and ammonium phosphate.
12. "The Gene Giants," Rural Advancement Foundation International, *Communiqué*, 3/30/99.
13. Ibid.

14. "Survival of the fittest," Alan Dawson, *Manitoba Cooperator*, April 22, 1999: p. 1.
15. Data collected by Jim Bateman for the Manitoba Department of Agricultural Economics. Available on request.
16. Dr. William Heffernan, *Consolidation in the Food and Agriculture System*, February 5, 1999: p. 17.
17. "Fortune 1000 Ranked Within Industries," *Fortune*, April 26, 1999: p. F-58.
18. Farmer's net in Saskatoon. Source: Saskatchewan Agriculture and Food, *StatFacts*. 10.03.
19. Hog prices from *Livestock Statistics*, Statistics Canada Cat. # 23-603.