CANADIAN CENTRE FOR POLICY ALTERNATIVES-SK

Saskatchewan Notes

Volume 1 Issue 1 — September 2002

"Free Trade": Is it working for farmers?

In January 1989, Canada implemented the historic Canada-U.S. Free Trade Agreement (CUSTA). In January 1994, Canada implemented the North American Free Trade Agreement (NAFTA). And in January 1995, we implemented the World Trade Organization (WTO) Agreement on Agriculture.

We've had 14 years of "Free Trade." How's it working for farmers? To find out, the following compares economic indicators from 1988 (the year before we implemented the CUSTA) with those of 2002. Figures are not adjusted for inflation.

	1988	2002
Canadian agri-food exports	**$10.9 billion**	**$28.2 billion**

Canadian farmers have been extremely successful in increasing exports, in gaining "access" to foreign markets. We have nearly tripled agri-food exports since 1988 and exports are seven times higher than in 1975. See graph on back page.

	1988	2002
Realized net farm income	**$3.9 billion**	**$4.1 billion**

These figures are not adjusted for inflation. If we adjust for inflation, net farm income is down 24%.

	1988	2002
Farm debt	**$22.5 billion**	**$44.2 billion**

Farm debt has doubled since we implemented the Canada-U.S. Free Trade Agreement. Today, interest on the debt nearly equals Canadian net farm income. The banks are taking nearly as much from our farms as the families who own those farms are earning.

	1988	2002
Wheat: farmgate price	**$4.93/bushel**	**$4.48/bushel**

Prices are for #1 Canadian Western Red Spring wheat, 11.5% protein, Saskatoon net (freight and elevator tariff subtracted). See the note on the Two-Price Wheat program in the section on bread, below.

	1988	2002
Bread: grocery store price	**$1.12/loaf**	**$1.46/loaf**

In 1988, Canada still had a Two-Price Wheat (TPW) program. That program set a price for wheat used in Canada that was higher but more stable than the world price. In 1988, Canadian millers were making $1.12 bread out of $7.00 (domestic-price) wheat. Today, they make $1.46 bread out of $4.48 wheat. The TPW program put up to $12,000 per year into the pocket of an average-size wheat producer. The bread price data cited here seems to indicate that the TPW program cost consumers nothing. The program was cancelled in 1988 in anticipation that it would violate the then-pending Canada-U.S. Free Trade Agreement.

(continued on next page…)

	1988	2002
Grain handling: # of farmer-owned co-ops	**4**	**0**

In 1988, four farmer-owned co-ops handled the vast majority of western grain (the Saskatchewan, Alberta, and Manitoba Pools and United Grain Growers). Today, Agricore United (formerly Manitoba and Alberta Pools and United Grain Growers, and with significant ownership by U.S.-based Archer Daniels Midland), Saskatchewan Wheat Pool (a former farmer-owned co-op that may soon be controlled by a U.S.-based corporation such as ConAgra), and Cargill have 75% of western grain-handling capacity.

Dairy: % processed by farmer co-ops	**60%**	**35%**

Large corporations are consuming our farmer-owned dairy co-ops. Saputo Inc. (Quebec-based; $3 billion+ revenues) took over Dairyworld Co-op in 2001. Parmalat (Italian-based; approx. $11 billion revenues) is also a major corporate player. The three largest processors handle 71% of Canada's milk: only one is a co-op.

Flour mills: Canadian ownership	**50% of cap.**	**21% of cap.**

One U.S.-based transnational, Archer Daniels Midland (ADM), owns 47% of Canadian flour milling capacity. ADM owned 0% in the mid-1980s, before the Canada-U.S. Free Trade Agreement.

Malt plants: Canadian ownership	**95% of cap.**	**12% of cap.**

Canada's malt capacity is predominantly owned by foreign-based transnationals such as ConAgra, Cargill, Rahr Malting, and Archer Daniels Midland.

Employment in agri-food processing	**277,300 jobs**	**274,900 jobs**

Politicians blithely predicted that "Free Trade" and the end of the Crow would dramatically increase the number of Canadian jobs in value-added food processing, thus providing employment for rural residents.

Freight rates (Saskatoon example)	**$7.15/tonne**	**$35.68/tonne**

When the federal government took the Crow Benefit from farmers in 1995, it pointed to the need to comply with the then-new World Trade Organization (WTO) Agreement on Agriculture.

Fertilizer price (anhydrous ammonia)	**$374/tonne**	**$539/tonne**

Trade agreements and globalization have triggered waves of agribusiness mergers, dramatically decreasing competition between the dominant corporations and increasing their market power. Canada's dominant fertilizer manufacturers have grown exponentially. Terra Industries, Agrium, and Potash Corporation of Saskatchewan are all eight to twelve times larger than they were ten years ago.

Diesel fuel price (Alberta example)	**25.0¢/litre**	**33.5¢/litre**

Canada's leading fuel refiners/retailers—Shell Canada, Petro-Canada, and Imperial Oil—recorded record profits in 2000 and 2001. Exxon owns 70% of Imperial Oil. Royal Dutch Shell owns 78% of Shell Canada. Petro-Canada is a widely-held, publicly-traded corporation (the Canadian gov't owns 20%). Fuel prices are higher in other Canadian provinces.

Number of major machinery companies	**6**	**3**

In 1988, a Canadian farmer could buy a medium-sized tractor from Ford/Versatile, White, Massey Ferguson, Case IH, John Deere, or Deutz/Allis Chalmers. Today, CNH (an amalgam of Case, International Harvester, Ford, NewHolland, Steiger, Versatile, and others) and John Deere dominate major machinery sales with annual sales of about $10 billion and $13 billion respectively. AGCO (Massey Ferguson, Heston, Gleaner, White) has sales of about $2.5 billion annually. [All figures in this paragraph in U.S.$.]

	1988	2002
Fed. gov't spending on farm support	**$4.7 billion**	**$3.5 billion**

These figures are not adjusted for inflation. If we adjust for inflation, 2001/02 federal government "spending in support of agriculture" is at its sixth-lowest level in 18 years. This low level of spending comes despite a grinding farm income crisis and weather-related production problems.

	1988	2002
Number of farmers in Canada	**293,089**	**246,923**

In the half-generation since Canada signed the Canada-U.S. Free Trade Agreement, corporate and government policies have forced 16% of our farmers off the land. In just the past five years (1996 to 2001), we have lost 11% of our family farms.

	1988	2002
Number of hog farmers	**33,760**	**11,565**

Of the farms that were raising hogs in 1988, corporate and government policies have since forced 66% out of production. Smithfield Foods, the world's largest producer/packer, will raise about 14 million hogs in North America this year and slaughter and pack about 20 million. Total Canadian production is about 26 million slaughter hogs per year. Smithfield has packing plants and production contracts across Canada.

	1988	2002
Pork chops: grocery store price	**$6.88/kg**	**$9.54/kg**

Canadians are told that fewer and larger farms will result in "higher efficiency." The benefits of that efficiency are elusive, however. While corporate and government policies have reduced the number of Canadian hog farmers by 2/3, packers and retailers have increased grocery-store pork chop prices by 39%.

	1988	2002
Hogs: farmgate price	**$1.44/kg**	**$1.46/kg**

While grocery-store pork chop prices are up 39%, farmgate prices are up only 2%. Seen another way, while hog farmers are still receiving about the same $1.44/kg, packers and retailers have increased their margin (between the price they pay to farmers and the price they charge consumers) by $2.64/kg.

	1988	2002
Packing plant pay (representative starting wage)	**$9.38/hour**	**$9.65/hour**

When adjusted for inflation, starting wages at many plants are down sharply. Packers are using their growing market power to push up prices to consumers, push down prices to farmers, and push down wages for workers. In the wake of the NAFTA, packers have argued that Canadian wages must be competitive with U.S. wages. U.S. wages, in turn, must be competitive with Mexican wages. Some Canadian packers, unable to attract workers, are bringing in workers from Mexico.

Sources and Notes (1988 source; 2002 source)

Exports: Agri-food Trade Service, International Markets Bureau; NFU estimate (2001 exports were $26.6 billion).

Net income: Statistics Canada, *Agricultural Economic Statistics*, Cat. # 21-603; Agriculture and Agri-Food Canada (AAFC), *Farm Income, Financial Conditions, and Government Assistance Data Book*, March 2002.

Debt: Statistics Canada, *Agricultural Economic Statistics*, Cat. # 21-603; NFU estimate (2001 debt was $40.8 billion).

Wheat: Saskatchewan Agriculture and Food, *Stat Facts*, #10.03; NFU estimate based on same and updated with July 25 CWB Pool Return Outlook.

Bread: Statistics Canada, *Consumer Prices and Price Indexes*, Cat. # 62-010; Statistics Canada, CANSIM Matrix v735175 - 326-0012.

Grain co-ops: Corporate annual reports and various articles in the *Western Producer*.

Dairy: Government of Canada, Co-operatives Secretariat, *Profile of Canadian Agri-food Co-operatives* (1986-1996); Estimate prepared by AAFC upon request.

Flour mills: Sosland Publishing Company, *1989 Milling Directory/Buyer's Guide* (November 1988); Sosland Publishing Company, *Grain and Milling Annual: 2002*.

Malt plants: Based on several sources, especially AAFC, *Bi-Weekly Bulletin*, July 11, 1997 and January 25, 2002.

Employment: Available on request from AAFC, based on Statistics Canada's *Labour Force Survey*. See also: AAFC, *A Profile of Employment in the Agri-Food Chain*, April 1999.

Freight rates: *Sask. Ag. and Food, Stat Facts*, #10.03.

Fertilizer: *Alberta Agriculture, Food, and Rural Development, Alberta Farm Input Prices*, various months. *The 2002 price is based on a six-month average (December 2001 to May 2002). The 1988 price is based on a comparable 1987/88 six-month average. Both prices are full-service, applicator included.*

Diesel fuel: *Same as previous.*

Machinery companies: *Survey of mergers and acquisitions, conducted online and through corporate annual reports, 1987 to current.*

Federal spending: AAFC, *Farm Income, Financial Conditions, and Government Assistance Data Book*; NFU estimate adjusted to account for newly-announced federal spending.

Number of farmers: *Statistics Canada, Census of Agriculture*, 1986 and 2001, 1986 Census data used as a *proxy for 1988; 2001 Census data used as a proxy for 2002.*

Hog farmers: Statistics Canada, *Livestock Statistics*, Cat. # 23-603.

Pork chops: Statistics Canada, *Consumer Prices and price indexes*, Cat. # 62-010; Statistics Canada, CANSIM Matrix P219135.

Hog prices: Statistics Canada, *Livestock Statistics*, Cat. # 23-603. Prices are for Index 100 hogs, dressed, weighted average in Ontario using a six-month average (December-May).

Packing plant pay: Collective agreement with Burns Foods Limited, Brandon plant; Collective agreement with Maple Leaf Foods Inc., Brandon plant (semi-skilled 1).

Why isn't "Free Trade" working for farmers?

Farmers have doubled exports and doubled them again; we've adopted new technologies, "high-value" crops, and exotic livestock; we've poured billions of dollars of investments into our farms; and, together with governments, we've signed numerous trade agreements. Farmers have done everything recommended by free trade and globalization advocates. And the result is the worst farm income crisis since the 1930s. Why hasn't free trade yielded the predicted benefits for farmers?

For farmers, so-called "Free Trade" agreements do two things simultaneously:

- By removing tariffs, quotas, and duties, these agreements erase the economic borders between nations and force the world's one billion farmers into a single, hyper-competitive market.
- At the same time, these agreements facilitate waves of agribusiness mergers that nearly eliminate competition for these corporations.

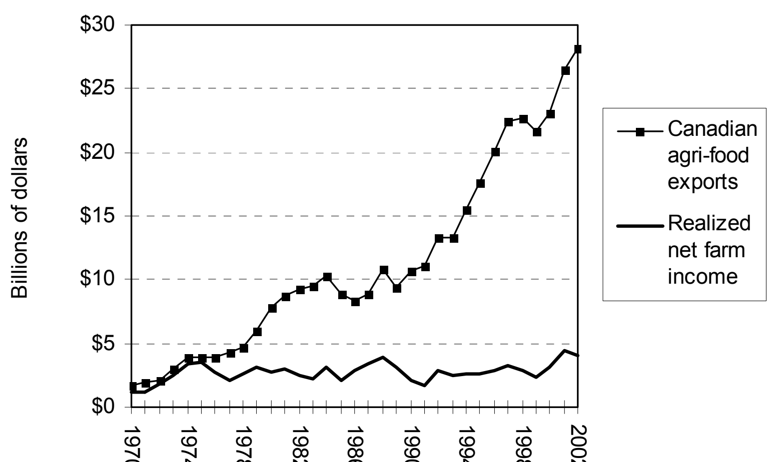
Economists agree: when competition increases—as it has for farmers—prices and profits decrease. And when competition decreases—as for agribusiness corporations—prices and profits *increase*. Thus trade agreements and globalization predictably decrease farmers' prices and profits and increase prices and profits for the dominant agribusiness corporations.

"Free Trade" agreements may increase trade but, much more importantly, they dramatically alter the relative size and market power of the players in the agri-food production chain. For farmers and their net incomes, increased exports may be one of the *least significant* effects of trade agreements and globalization. Much more significant—perhaps completely overwhelming any potential benefits from increased exports—may be the effect these agreements have on the balance of market power between farmers and agribusiness corporations, because this balance of market power determines the distribution of profits within the agri-food production chain.

The following graph shows that farmers have not benefited from "Free Trade" or rising exports. Despite such evidence, the federal government wants to sign a new WTO agreement that will, it says, help end the farm crisis. The government also wants to expand the NAFTA to the tip of South America with the "Free Trade Area of the Americas" (FTAA). **Help reverse this destructive course. Help us get the message to Ottawa: "Free Trade helps Cargill and Monsanto, not farmers."**

— *by Darrin Qualman, Executive Secretary National Farmers Union*

Canadian agri-food exports and realized net farm income: 1970-2002



Sources: Stats. Can., *Agricultural Economic Statistics*; Agri-food Trade Service, International Markets Bureau.

The Canadian Centre for Policy Alternatives—Saskatchewan (CCPA-SK) is an independent, non-partisan research organization. Studies undertaken by CCPA-SK will arise from a community, collective and social concern. **CCPA-SK Saskatchewan Notes** is produced and distributed electronically. They can be reproduced as an OpEd or opinion piece without obtaining further permission, provided they are not edited and credit is given.

Canadian Centre for Policy Alternatives –SK
2717 Wentz Ave., Saskatoon, SK S7K 4B6
Ph: 306-978-5308 — Fax: 306-922-9162 — Email: ccpasask@sasktel.net