"The Two Faces of Canadian Agriculture in a Post-Staples Economy"

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Introduction

It has been a long time since wheat was `king'. The grain that was once so closely identified with prairie economic development now shares pride of place with many other agricultural commodities. Further, other resources and industries long ago eclipsed agriculture's importance to the national and provincial economies. The agriculture sector itself has been transformed to bear the trademarks of a mature staples model. Contemporary agricultural production is capital-intensive and technologically advanced. Farmer and farm numbers decline with each census. Agriculture and food contribute eight per cent to Canada's GDP and account for one in seven Canadian jobs. Three quarters of these jobs are beyond the farm gate: upstream in the farm input supply sector or, more often, downstream in the food manufacturing, retail and distribution sectors. Food processing now surpasses primary (commodity) production in economic importance in all provinces east of Manitoba. It is the third largest manufacturing industry in Canada and the largest in seven provinces (Kraker: chart A1.3). Even so, the retail, wholesale and food services now account for a greater share of Canadian jobs and GDP than do food production and processing combined.[1]

Agriculture's transformation to a mature staples sector has not, however, erased the attributes that make a staple commodity so economically vulnerable. The sector as a whole relies on export markets to absorb almost half of its production, and the figure is far higher for some commodities (grains, oilseeds, cattle, hogs). This export dependence, combined with the chronic havoc wreaked by bad weather, makes a large part of the sector as susceptible to boom and bust cycles today as it was a century ago. North American regional and multilateral trade agreements have done little to secure foreign markets and reduce this vulnerability. Nor has the inferior place of agricultural producers in the pricing system (Fowke 1957:290) been corrected. The farm input supply (machinery, seeds, fertilizer), food processing, and food retail and wholesale distribution sectors have become increasingly consolidated (Krakar 2003: Chart B2.4, Chart B3.4) to the detriment of farmers' ability to extract favourable terms of trade as purchasers of supplies and sellers of foodstuffs. This inferior bargaining power is more pronounced for producers of commodities reliant upon export markets than it is for the domestic-oriented supply managed poultry, dairy, and egg sectors.

In its current state, agriculture and food is Janus-faced. One face is worn by the many commodity producers whose productivity has increased but whose incomes have declined in real terms in recent years (Bowlby and Trant 2002). The other face is borne by the value-added food processing and retail sectors, where firms enjoy higher rates of return, on average, than their non-food counterparts (Smith and Trant 2003). The co-existence of these two faces—the one seemingly in chronic need of state support, the other more robust--invites examination of the political, ideological, and economic forces that have shaped the development of the agriculture and food sector over the past century and more.

This article traces the evolution of agriculture from a staples to a mature staples sector in the post-staples Canadian economy. It examines the situation of agricultural

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producers in the domestic and international political economy and traces the factors which have led to its structural transformation. Public policies are deeply implicated in this transformation, and accordingly, the changing patterns of relations between state actors and the agri-food sector are given attention. Four periods of structural transition and patterns of state-sector relationships are identified. The first, expansionist phase, extended from the late nineteenth to the 1930s when agricultural commodities were integral to the development of the Canadian economy and political community. The second period, from the 1930s to the end of the Second World War, marked an interregnum when agriculture merited attention not simply because of its service to broader national goals, but also because of recognition of structural disadvantages faced by thousands of individual commodity producers in a market economy. The third period, from the end of the Second World War through to the early 1980s, witnessed significant structural and policy changes in the sector in quest of rendering the sector more productive and profitable. The transition to a mature staples sector was supported by state intervention in agricultural markets and a financial safety net for producers. In the current fourth phase, since the early 1980s, changes in the international political economy, domestic fiscal deficits, and ideological shifts have precipitated a new competitiveness model. Strategies that are market-oriented and give incentives to adding value to raw commodities are in vogue.

The four periods are marked, as well, by distinct patterns of state-sector relationships. Except for a brief period in the early 1920s, when farmers engaged directly in electoral politics, organizations representing farmers have been important intermediaries. Their strategies, organizational cohesion, and influence have varied over time, but one constant in their capacity to prevail has been the ability of farm groups to forge alliances with provincial governments. Such coalitions have been facilitated by the fact that the political economies of several provinces have historically been more dependent than the national political economy on the production, processing, manufacture and sale of agricultural commodities and food.

Agriculture as a Dominant Staple: late 19th century – 1930

From the late nineteenth century and well into the twentieth, agricultural commodities were closely identified with Canada's economic and political development, and none more so than wheat. The production and export of wheat was `the keystone' in the National Policy inaugurated in 1879 (Easterbrook and Aitken 1956: 476). It was designed to create Canadian jobs, investment and economic prosperity. The National Policy included tariff protection for domestic manufacturing interests, initiatives to attract immigrants to western Canada, and the construction of a transcontinental railway to move people and central Canadian manufactured goods into the prairie interior and grain and flour out to ocean ports. The development of the prairie wheat economy tied these various policies together, and collectively they warded off American imperialist ambitions and promoted Canadian commercial and manufacturing interests (MacKintosh 1923; Easterbrook and Aitken 1956; Fowke 1957).

At the onset of the First World War, the contribution of the wheat economy to the nation building goals of the National Policy was fully evident. An independent nation had been established in the northern part of the continent and the prairies settled by immigrants. Wheat was Canada's number one export in 1910 and continued to hold that spot in 1930. Wheat and wheat flour exports accounted for more than a quarter of all Canada's exports in foreign markets in 1930, almost double the value of the closest rival, newsprint paper (Hart 2002: 96). Agriculture's contribution to the pursuit of commercial and nation-building goals led to state assistance. It included government regulation of grain elevators and grain handling and storage facilities. It also included regulated railway freight rates for the transport of grain and flour, as set `in perpetuity' by the 1897 Crow's Nest Agreement.

From the early twentieth century onward, farmers recognized their competitive inferiority in the price system and mobilized to do something about it. Farm organizations were transformed into farmers' parties and captured political office in Ontario (1919), Alberta (1921) and Manitoba (1922). Given that the Government of Canada was much better positioned than were provinces to meet producers' needs for better terms of trade (owing to its legal authority over inter-provincial and export marketing), more important was the 1921 federal electoral success of the Progressive Party. Campaigning on a platform closely aligned with the Canadian Council of Agriculture, the Progressives became the second largest political party in the House of Commons. The Progressives used their influence to have the Crow's Nest Pass freight rates, which the government had suspended in 1918, reinstated in 1922 and made permanent in 1925.

Depression and War and the National Interest: 1930-1945

The Great Depression of the 1930s and the Second World War were an interregnum in which the state's role in the sector increased but in the service of `national interest' goals. The farm population comprised a significant proportion of the total Canadian population and the farm economy was nationally important. In 1930, one in three Canadians lived on farms. In 1941, more than one in four still did (Statistics Canada 2001). With some rare exceptions–notably between 1931 and 1933--exports of grains and later oilseeds, livestock, and meats contributed importantly to the country's positive balance of trade and payments, even when they were overtaken by mineral and forest resources after 1930 as Canada's most important exports (Hart 2002: 188). Over the 1930s and 1940s, agriculture comprised on average 11 per cent of Canada's gross domestic product (Urquhart and Buckley 1965).

Two important initiatives during this period reflected the logic of the preceding era: that is, that agriculture received attention to the extent it contributed to broader national goals. One was the creation of the Canadian Wheat Board. It began first as a temporary agency (1919-21), and was restored under farm pressure in 1935 when the farmer-owned pools collapsed. The Wheat Board was granted a monopoly to sell prairie farmers' wheat in 1943 not so much because farmers demanded it—they had for two decades—but because a single-desk marketing board would ensure sufficient supplies of grain to meet commitments to Britain and other allies. When the Board's monopoly was renewed and extended in the postwar period, it was also in order to fulfill commitments to wartime allies. The move enjoyed widespread support from opposition political parties, the Canadian Federation of Agriculture, the prairie wheat pools, and the three prairie provincial governments (Thompson 1996).

The second initiative was the federal government provision of financial assistance to stabilize prices of eleven farm commodities, including grains, dairy and meat products. It, too, was designed as much, if not more, to secure `national interest' objectives as to assist farmers. The price stabilization programs supported prices at levels farmers found unduly low, but they encouraged the production needed to ensure food supplies for European allies, and prevented domestic price inflation (Drummond et al.1966).

State Intervention and Restructuring in the Post-war Period

The three decades after the Second World War constitute a period of massive structural change in the agriculture sector. Between 1951 and 1967, capital investment in Canadian farming more than doubled (Canadian Agriculture in the Seventies 1970: 334).

It was made possible by government-subsidized credit, the Canadian government believing that larger and more mechanized farm units would be more efficient, enhance agricultural productivity and make the sector more competitive. Agrarian restructuring was also seen as a way to reduce the problem of farm poverty that plagued Canadian agriculture into the late 1960s (Ibid.: chapter 2). However, as the number of farms declined, farms expanded in size, and farm labour was replaced with machinery (see Tables 1 and 2), a sharp gap developed between a small number of large `commercial' farms, producing two-thirds of agricultural commodities, and a much larger number of small farms, responsible for only about a third of agricultural output.

This structural transformation was assisted and cushioned by an expansion of state assistance for agriculture. It was initiated by the Diefenbaker Conservatives (1957-63), who scooped up prairie farmers' support in 1957 after the St. Laurent Liberals had alienated the region with their hard-line stance against agricultural support (Smith 1981: 27-29). When the Liberals regained office, the farm lobby, mobilized and prepared to engage in militant protest, exploited its early minority government status (1963-68) to extract measures to deal with a persistent cost-price squeeze in the sector. In addition to subsidized capital, three other policy programs were implemented. First, the price stabilization measures initiated in the 1940s were expanded to offer many more producers a backstop against fluctuations in their incomes stemming from commodity price volatility and climate-induced crop failures. Government financial transfers to farmers expanded three-fold between 1957-58 and 1972-73 (Berthelet 1985: 10). They expanded further when a program to stabilize prairie grain prices was established in 1976. Second, governments searched out new export markets and entered into an international wheat agreement to stabilize wheat prices. And third, complementary federal and provincial legislation enabled national, supply management marketing schemes that established production quotas and commodity pricing formulas for designated commodities. These plans established prices at a level that guaranteed most farmers a stable and profitable income. By the late 1970s, dairy, poultry, and egg producers–the bulk of whom farmed in central Canada–benefited from national marketing boards that regulated domestic supply and prices and protected domestic products from foreign imports. Their economic bargaining power contrasted quite dramatically with that of grain and oilseed producers located overwhelming in prairie Canada. The stabilization programs to which grain and oilseed producers had access did not offer the same protection from the highs and lows of the international markets on which they depend.

These measures of state assistance were secured over the 1950s, 1960s and 1970s despite the organizational fragmentation of farmers. Farmers did not speak with one voice. Two national organizations, the Canadian Federation of Agriculture and the National Farmers' Union, competed to represent farmers on a national plane. They were flanked by organizations representing growers of specific commodities, not all of which were members of the Canadian Federation of Agriculture. This multiplicity of farm organizations undoubtedly dissipated the leadership and coherence of the farm lobby. However, this weakness was offset by the strong alliances that provincial farm federations and provincially significant commodity organizations forged with their provincial governments (Skogstad 1987).

State Retrenchment, Regionalisation, and Globalization in the 1980s and 1990s

Developments in the Canadian and international political economies in the 1980s de-stabilized state assistance and market intervention in Canadian agriculture and called for new strategies to increase its productivity and competitiveness. Domestically, large and growing fiscal deficits and public debt made state transfers to producers vulnerable until the late 1990s. In the international arena, trade protectionism and an unstable international trading regime from the early 1980s through to the mid-1990s gave Canadian governments strong incentives to support market-liberalizing trade agreements. Agri-food exports accounted for almost 50 per cent of farm cash receipts (Agriculture Canada 1989: 15), grain exports had increased four to five times in value since the mid-1960s, and pork and beef exports were also growing in value. The portent and subsequent implementation of liberal trade agreements intensified pressures for an agri-food sector that could compete in both domestic and international markets. This new context of fiscal deficits and liberal trade agreements, provincial and federal governments agreed, necessitated a new `vision' of "a more market-oriented agri-food industry that aggressively pursues opportunities to grow and prosper. ... a more self-reliant sector that is able to earn a reasonable return from the market place" (Agriculture Canada 1989).

One federal strategy to give life to this vision was to fund research into new technologies, like biotechnology, and encourage farmers to adopt them. To enhance their productivity and competitiveness, farmers were also encouraged to diversify into crops, including non-food uses for existing crops (ethanol, for example). In prairie Canada, diversification into cattle, hogs, and specialty crops reduced the dependence on grains and oilseeds. Even so, by 2002, the agriculture minister was forced to admit that the strategy had produced meager results, at least as far as encouraging farmers to embrace innovation, diversification, and value-added production (Vanclief 2002).

A second thrust of the vision to create a more competitive agri-food sector has been to emphasize `value-added' activities beyond the farm gate, in the supply, processing, and retail chains, for example, and removing policies and practices that hinder their growth. Indeed, to indicate its broader mandate, Agriculture Canada was renamed Agriculture and Agri-Food Canada in 1993. By the early 2000s, the emphasis on value-added activities had caused a substantial shift in the nature of agri-food exports. Whereas in the late 1980s, almost 75 per cent of total agri-food exports were still in the form of raw or partly processed cereals, oilseeds and meat products (Agriculture Canada 1989: 27), by 2000, one half of agri-food exports were `consumer-oriented' (non-bulk commodities).

The third and fourth strategies to reorient the sector in a more market-oriented and self-reliant direction have been entering into regional and multilateral liberalizing trade agreements, and restructuring policies of state assistance policies. Each is now dealt with more fully.

Regional Market Integration and Dependence

The objective of Canadian negotiators in the Canada-US Free Trade Agreement (FTA, 1989), its successor North American Free Trade Agreement (NAFTA, 1994), and the GATT agreements that created the World Trade Organization (WTO) in 1995 was modest liberalization of trade in agriculture. Equally important were the goals of mutually agreed rules of trade that would replace the unilateral exercise of economic power, reduce cross-border barriers to trade and investment, and create effective procedures for the management of trade disputes.

With a few exceptions, the Canadian and American agriculture and food sectors have become integrated. The indicators of integration are the emergence of North American or multinational agri-food businesses, the integration of prices of some important commodities, and trade interdependence (Hertel 2001). This integration owes much to NAFTA's elimination of most tariffs between Canada, the US, and Mexico, and its provisions for cross-border investment opportunities.[2] American investment in Canadian food processing has increased to account for four-firths of total foreign direct investment (Zahniser and Gehlhar 2001:19). Significant parts of the Canadian meat packing, flour milling, oilseed crushing, and grain handling industries are now owned or controlled by US parent companies (Paddock et al 2000:6).

Two-way trade has surged. In 2002, agri-food exports to the US accounted for 68 per cent of total Canadian agricultural and agri-food export value, up from 40 per cent in 1990 (Kraker 2003). The largest component of agricultural exports is high value (consumer-ready) products, including processed fruit and vegetables as well as beef and pork (Zahniser and Gehlhar 2001:19).[3] The US is Canada's most important export destination for agri-food products and its most important source of imports.

Not all Canadian agricultural commodities are dependent upon the American market. The largest volume of wheat and oilseeds continue to be sold in other countries and these commodities are thus affected more by global developments and those in the multilateral trade regime (discussed below). Canada successfully negotiated border protection for the 'sensitive' dairy, egg, and poultry supply managed sectors under NAFTA and the WTO and these commodities are overwhelmingly sold in the domestic market. But north-south trade in some of Canada's most significant agricultural commodities–cattle and hogs being primary examples–occurs in what is normally a largely open market.

NAFTA has not, however, guaranteed secure access to the US market. It does not prohibit countries from using measures like anti-dumping, countervailing, and safeguard duties to compensate domestic industries from "unfairly traded" imports. American use of such measures remains a permanent fixture of cross-border trade. Throughout the 1990s and into the twenty-first century, Canadian cattle, pork, hogs, sugar, wheat, and barley were all subject to anti-dumping and/or American countervail actions and some of these commodities more than once (Alston et al. 2001; Cox et al. 2001; Loyns et al. 2001). Although Canadian governments have usually succeeded in having the duties withdrawn and demonstrating that the allegations of unfair trading are unfounded, this virtually endless trade harassment has cost Canada and the agriculture sector considerably in lost sales and legal fees.

The high dependence of many Canadian agricultural commodities on access to the US market is problematic. Canadian cattlemen learned this in graphic fashion following the discovery of a cow infected with BSE (bovine spongiform encephalopathy) in Canada in May 2003. The American market, accounting for over 80 per cent of beef exports and nearly all cattle exports, closed to Canadian cattle and beef imports. With the ban still in place for live cattle and some beef in spring 2005, losses to Canada were estimated to be $5 billion and climbing.

Integration into the Multilateral Trading Regime

Canada's status as a medium sized power with a small domestic market has made it a long standing supporter of multilateral trading agreements to reduce barriers to trade. Agriculture, however, had been largely exempt from GATT rules until the successful conclusion of the Uruguay Round of GATT (1986-93) and the implementation of the WTO in 1995. The Agreement on Agriculture curbed a number of domestic agricultural policies. It required existing export subsidies to be reduced in volume and value and prohibited new export subsidies. It required import controls and licenses to be converted to bound tariffs and established minimum access commitments for imports. The minimum import quotas and tariffs that replaced pre-1995 import control measures were set at levels that continued to afford Canadian supply managed products a high–if not higher–level of protection from foreign competition (Schmitz et al. 1996). The

Agreement also limited government expenditures on trade-distorting domestic support measures. The Dispute Settlement Understanding created new procedures to settle trade disputes that bind countries to the decisions of dispute settlement bodies and preclude them avoiding their legal obligations under GATT/WTO.

The WTO has produced mixed results in terms of securing fairer terms of trade for export oriented sectors. On the one hand, it has been a bulwark against American attempts to undermine the Canadian Wheat Board, an institution that enhances the price bargaining power of Canadian farmers in the international market place and treats individual farmers equitably in terms of their returns from that market place. In early 2004, the World Trade Organization found unwarranted an American complaint that the Wheat Board operates in a non-commercial and discriminatory manner and unfairly restricts access by US farmers to the Canadian grain handling and transportation system (Smith 2004). On the other hand, the WTO Agreement on Agriculture has failed to open markets and curb government agricultural subsidies. The large subsidies that the United States and the European Union provide their farmers—much larger than provided by Canadian governments--have a depressing effect on international grain and oilseed prices. At the same time, the prohibition on new export subsidies derailed a dairy export program that would have opened up new export markets for Canada's dairy sector (Standing Committee on Agriculture and Agri-Food 2003).

The launch of the Doha Development Round of WTO negotiations in 2000 presented both opportunities and costs to Canadian agriculture. As with the Uruguay Round negotiations, agriculture proved to be a stumbling block to successful resolution of the Doha Round and it was suspended in mid-2006 when the European Union refused to make further concessions on market access (lower tariffs on imports and/or larger volumes of low-tariff imports) and the United States refused to agree to further cuts in its domestic subsidies for agriculture. Any gains Canadian grain farmers would reap from cuts in American farm subsidies were likely to be offset by the elimination of government financial guarantees for the operations of the Canadian Wheat Board. Concessions on market access would require Canadians to agree to larger volumes of imports of supply managed dairy and poultry products.

Redefining State Fiscal Obligations

Consistent with the vision of a more market oriented and self-reliant agriculture, government financial transfers to the agriculture sector dropped over the 1990s. Over the period 1986-1988, taxpayer and consumer transfers to Canadian farmers comprised 34 per cent of farmers' gross receipts; by 2000-02, they accounted for only 19 per cent (OECD 2003). Although transfers to agricultural producers have dropped in all OECD countries, the decline has been more dramatic in Canada than in OECD countries as a whole, the United States and the European Union, and more than required by the WTO Agreement on Agriculture. In addition, Canadian income support programs were reformed to make them more trade-and production-neutral and to require producers to share a greater proportion of their costs.

State fiscal retrenchment hit prairie grain and oilseed producers particularly hard. The 1995 Paul Martin budget curbed payments for income support and eliminated railway export freight subsidies.[4] Although prairie farmers received a one-time compensatory payment of $1.6 billion for the loss of railway freight subsidies, "the true value of the lost benefit was three to four times that amount" (Schmitz et al 2002: 173). By the late 1990s, low international prices and climate-induced low yields, combined with rising fuel, machinery, fertilizer, and freight costs, resulted in historically low farm profits for grain and oilseed growers. Canadian governments came under pressure to treat

Canadian farmers as their competitors were being treated in Europe and the United States. With their fiscal situations much improved, Ottawa and the provinces injected new monies—as much as $5 billion annually--into agriculture. Government efforts to require farmers to take more responsibility for managing their income risks--by picking up a bigger share of the costs of risk management programs—were also forestalled by continued low incomes in the grains and oilseeds sectors.

The Political Organization of the Agri-Food Sector and State-Sector Relations

Over the past two decades, the composition of national and provincial agri-food policy communities has changed, and within them, the influence of farm organizations. Compared to earlier periods, the policy community is more pluralist. On a large array of issues, it now includes representatives of non-producer groups, including processors, further processors, retailers, financial institutions, and export traders. Domestic and foreign consumers' heightened attention to food safety has also brought consumer representatives into policy making forums. And environmentalists are also members, particularly of some provincial agri-food policy communities, out of recognition of the potentially damaging effects of agricultural production practices on the environments. In this pluralist arena, the influence of farm leaders now depends more than ever on their capacity to forge alliances with not just provincial governments but equally other farm and non-farm organizations. Simultaneously, the capacity of national farm organizations, like the CFA, to represent the farm community has been handicapped by farmers' organizational fragmentation and internal divisions. These fissures are rooted in multiple and overlapping cleavages: between farmers whose surplus products depend upon export markets and those protected within the domestic market, between farmers who operate large commercial operations and those less profitable, and between farmers philosophically opposed to market-liberal reforms and those supportive of a market-oriented agriculture. By contrast, other components of the food sector beyond the farm gate—food processors, retailers, distributors, and suppliers of inputs—appear more united in their goals regarding the state's role in the sector .

Two patterns of state-societal relations are evident. One is a cooperative pattern in which representatives of the agri-food sector work closely with government officials and representatives of other agri-food interests on advisory committees. This pattern is typical of issues like the design of farm income `safety nets' or risk management programs, as well as in the formulation of Canadian external trade policy (Coleman and Skogstad 1995; Skogstad 1999). Since 1997, the Canadian Federation of Agriculture (CFA), commodity groups and non-producer interests have been members of the National Safety Nets Advisory Committee. The CFA, which represents some 80% of Canadian farmers, has the most members on the committee and also chairs it. Although the committee is labeled "advisory", farm groups expect that the committee's advice will be followed and have been harsh in their criticism when it is not.5 With respect to international disputes over the provisions of regional and global trade agreements, like those pertaining to dairy subsidies and the Canadian Wheat Board, commodity and farm organizations have been closely consulted closely on strategies to resolve them and, where necessary, on how to bring domestic policies in line with international law (Skogstad 1999; Skogstad 2002: 168-69).

These governing arrangements, in which state and non-state actors collectively determine the substance of public policies for the sector, tend to expose the conflicts and divergent interests within the Canadian farm community. Even so, the CFA enjoyed considerable success into the twenty-first century in bridging these divisions, particularly that between its export- and domestically-oriented members, and had the ear of the federal government on trade policy. Its influence during the Doha Development Round of WTO negotiations has been de-stabilized with the emergence of an alliance of export-oriented interests under the title of the Canadian Agri-Food Trade Alliance (CAFTA). Whereas the CFA has long-handed advocated a `balanced trade policy' in which liberalization of export markets for the grains and oilseeds sector is accompanied by domestic protection for supply managed poultry and dairy sectors, CAFTA is pressing the Canadian government to adopt a position of liberal trade across the board. CAFTA's members, who include producer organizations, processors, marketers and exporters from the major trade reliant sectors in Canada, are said to account for almost 80 per cent of Canada's agriculture and agri-food exports and more than half of Canada's farm cash receipts.

The second pattern of state-societal relations is more confrontational and occurs when the pattern of concertation described above breaks down. In this second mode, farm organizations resort to conventional lobbying through the construction of a broad coalition of support across farm groups, business organizations whose fate is closely tied to the well-being of the farm community, political parties and provincial governments. When hog, grain, and oilseed producers found themselves in a severely depressed economic situation in the late 1990s and early 2000s, the farm lobby solicited the support of prairie premiers, federal opposition parties, MPs and Senators on parliamentary committees, and the rural caucus of the governing Liberal party. The lobbying effort showed the depth and non-partisan nature of political support for farm financial assistance and was ultimately successful.

These policy victories of farm organizations notwithstanding, considerable influence over agri-food policies has shifted to the non-producer components of the sector. Agri-businesses beyond the farm gate not only have more influence over agri-food policy making. They also exercise considerable structural power vis-à-vis producers.

The Structural Inferiority of Staples Producers in a Mature Staples Sector

There are currently roughly 250,000 farmers, who comprise about 3 per cent of the Canadian population. Their farms are a third larger than they were a decade ago; their numbers of fellow farmers more than a fifth fewer. [6] Thirty-one per cent of these farmers operate large and highly specialized farms that account for almost all production: 87 per cent of all sales.[7] As primary commodity producers, farmers account for 1.7 per cent of GDP (Agriculture and Agri-Food Canada 2005). Beyond the farm gate, the food processing industry employs 200,000 people and represents 2.3 per cent of Canadian gross domestic product in 1996, the food distribution sector contributes 2.5 per cent, and the food service sector, 1.8 per cent (Ibid.). These data highlight the disparate contribution of components of the agri-food system to the Canadian economy

What they do not disclose are patterns of structural relations within the sector. Decade upon decade of restructuring in the agriculture and food sector has done little to correct what the political economist Vernon Fowke (1957: 296) identified as `the competitive disabilities of agriculture within the price system.' Thousands of individual commodity producers, competing with one another as they purchased their supplies from and sold their commodities to parties who could avoid similar `rigours of competition', said Fowke, would always leave farmers in an inferior bargaining position. Certainly, single desk marketing agencies like the Canadian Wheat Board, and more particularly, national supply management plans for dairy, egg, and poultry products, have helped to correct this competitive disability. Nonetheless, consolidation in the farm input supply (machinery, seeds, fertilizer), food processing, and food (retail and wholesale) distribution sectors (Krakar 2003: Chart B2.4, Chart B3.4) pose real threats to farmers' capacity to extract fair terms of trade in the marketplace.

Some data from the processing sector tell the story of consolidation. Takeovers in the Western Canadian pork processing sector have left a single–Canadian–firm (Maple Leaf) with a 45 per cent share in Canada's prepared meats sector (Western Producer 2003: 6). Before the 2003-05 beef crisis, two companies controlled 37 per cent of the capacity in the beef packing sector, three-quarters of which is foreign-owned (Qualman and Wiebe 2002: 9). Chicken processing is now fairly concentrated; the five largest companies in terms of volume processed almost 60 per cent of all chicken in 1999, and the ten largest firms processed 80 per cent (Agriculture and Agri-Food Canada 1999). In most provinces, there is now only one processor; should it go out of business, chicken producers will as well. Flour milling is now dominated by two large American owned firms who control about 75 per cent of capacity (Agriculture and Agri-Food Canada 2003a). In the dairy sector, the arrival of multi-national firms like Danone, Unilever, and Parmalat has engendered consolidation and takeovers. The market share of dairy co-operatives has been reduced to 50 per cent from close to 70 per cent in the 1990s (Ibid.), and only one of the three major dairy processors (Agropur) is a co-operative.

Turning to the retail sector, the five largest food retailers account for 60 per cent of national grocery sales (Kraker 2003: 5). In the farm input sector, two farm machinery companies now dominate, in place of six in the late 1980s (Qualman and Wiebe 2002). Similar consolidation has taken place in the fertilizer sector but it remains largely Canadian owned (Agriculture and Agri-Food Canada, 2003b: chapter 2.1).

The concentration of agri-food businesses raises concern about the consequences for farmers' bargaining power over prices. Quagrainie et al (2003) suggest that the limited number of beef packers allowed them to exercise "a small but sustained amount of market power" in the Canadian finished cattle market from 1978 to 1997. Mergers that have diminished the market-power of farmer-owned cooperatives mean a loss of farmers' ability to extract revenues further downstream. In the grain handling (elevator) sector, four farmer-owned co-operatives have been replaced by one commercial enterprise (Agricore United)[8] and one publicly traded co-operative (the Saskatchewan Wheat Pool). Together with the private multinational, Cargill, they handle 75 per cent of western grain sales, less than 50 per cent of which passes through a co-operative (Goddard et al. 2002).

The dominance of a limited number of private processors in the supply managed sectors puts in jeopardy the marketing boards that have augmented farmers' bargaining power. Private dairy processors have taken advantage of their market power to negotiate prices downward in western Canada (Doyon 2002: 507) Unlike dairy cooperatives that support supply management principles of production and border controls, multinational corporations like Parmalat do not (Goddard et al. 2002). In the poultry sector, although chicken processors remain supportive of supply management, further processors (who use processed chicken as an input to their products) do not. In the grain and oilseeds sector, the growing market strength of private companies jeopardizes the export monopoly of the Canadian Wheat Board. Unlike the Saskatchewan Wheat Pool which has been an important supporter of the Board's monopoly in the past, companies like Cargill and Agricore oppose it.

Conclusion

Contemporary agriculture has the characteristics of a mature staples sector. It is technologically advanced and capital has been substituted for labour. And yet, aside from supply-managed dairy, poultry, and egg producers, it retains the dependence of a staples sector on external markets to absorb at least half its output. The uncertainty of international markets and weather-induced fluctuations in production leave all farmers but those in the supply managed sectors highly vulnerable to unstable incomes. The promise of international trade agreements, like NAFTA and the WTO, to secure export markets remains unfulfilled.

Despite its `maturity', agricultural production too often looks like a sector in chronic crisis: "an endangered species" (Pratt 2000: 1). Farmers have increased their productivity but many have not reaped the benefits. Most farmers have witnessed sharp fluctuations and a decline in their real incomes over the past 30 years (Brinkman 2002). This income decline is the result of input costs rising faster than market prices, and of international aggregate supply (of grains and oilseeds, in particular) rising faster than aggregate demand. The most profitable segment of the sector is that beyond the farm gate; the largest profits accrue to those who add to primary agricultural commodities. Indeed, operators of small farms, and increasingly those of larger operations as well, now find it necessary to have another off-farm job (Culver et al 2001: 521). Even then, the grain sector has had to rely on government transfers to sustain it. Brinkman (2002: 400) reports that "net government transfers and rebates from 1985 to 2001 contributed the equivalent of 77 per cent of all prairie net farm income."[9] The income crisis, the de-population of rural Canada (Epp and Whitson 2001: xix-xx), and the aging of the farm population are all reasons to view agricultural producers as a beleaguered sector. In the early twenty first century, the agriculture and food policy community, including provincial and federal governments, continues to search for the mixture of policies that will bring profitability to the sector.

Table 1. Canadians Living on Farms

	1931	1941	1951	1961	1971	1981	1991	2001
% living on farms	31.7	27.4	20.8	11.7	7.4	4.7	3.2	2.4
% change over decade		13.6	24.0	43.8	36.8	36.5	32.0	25.0

Source: Statistics Canada. Census of Canadian Agriculture. 2001.

Table 2. Changes in Canadian Farm Structure, Selected Years

	1981	1986	1991	1996	2001
Total Farms	318,361	293,089	280,043	276,548	246,923
Total Hectares	65,888,916	67,825,757	67,753,700	68,054,956	67,502,447
Average Hectares per Farm	207	231	242	246	273

Source: Statistics Canada. Available at:
http://www.statcan.ca/english/Pgdb/econ124a.htm;
http://www.statcan.ca/english/Pgdb/econ117a.htm.

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ENDNOTES

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[1] Source: http://ats-sea.agr.ca/supply/e3314.pdf; Agriculture and Agri-Food Canada (2001).

[2] Trade flows have also been affected by the low Canadian dollar relative to the American, as well as by domestic public policies of the two countries. For example, the elimination of Canadian grain freight rate subsidies made the US market attractive for Canadian unprocessed grain and oilseed exports. Simultaneously, US grain export subsidies created a demand in the American market for Canadian grain by making it profitable for American producers to ship their grain overseas.

[3] High value processed products are distinguished from processed intermediates (live animals, animal feeds) and bulk commodities (grains, oilseeds).

[4] The government transfers to the railways were put in place in 1984 following the abolition of the statutory Crow's Nest freight rates.

5 For example, the CFA President publicly chastised the Agriculture Minister in 2002 for proceeding with a plan to redesign farm income risk management programs despite farmers' opposition. Doing so, he said, posed "a real danger that the relationship between governments and the industry will be jeopardized and will be undermined irreparably" (Friesen, 2002:14).

[6] These data are available at: http://www.statcan.ca/english/Pgdb/econ124a.htm; and http://www.statcan.ca/english/Pgdb/econ117a.htm. Average farm size varies depending upon the province, (grain) farms are larger on average in Saskatchewan. See also Bowlby and Trant 2002: 8.

[7] Commercial farms have revenues over $100,000. Small and medium-sized farms, 35% of all farms, have revenues between $10,000 and $100,000. The remaining 34% of farms are hobby firms which account for 1% of production and are totally dependent on off-farm income.

[8] The Alberta and Manitoba Wheat Pools merged and were subsequently purchased by United Grain Growers to become Agricore United, in which the multinational grain company, Archer Daniels Midland, has a major share.

[9] These transfers brought the average farm family income up to that of non-farm families and resulted in an average net worth for farm households above that of non-farm households (Culver et al. 2001).