Side-step, two-step carries on
OPINION, The Western Producer, July 14, 2005
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Ranchers know B.S. when they see it.   They work around it everyday.

Perhaps it's the familiarity of this side-step two-step that makes them feel there's "little to be done" to end Washington's two-years-and-counting, North American Free Trade Agreement-illegal embargo against Canadian beef and cattle.

Ottawa certainly reinforces this view by leaving the entire matter to be decided by American courts, where foreign minions –the United States Department of Agriculture - and mercenaries of the high-priced Washington variety are trusted to represent the interests of Canada's farmers and communities.

Meanwhile, Ottawa is spending Canadian tax dollars to cover disaster relief programs that should be funded by American taxpayers.

A substantial portion of that is being sopped up by a concentrated packing sector both directly through support payments for packer-owned cattle and indirectly through their ability as a concentrated, vertically integrated sector to exert influence over live cattle prices through the manipulation of market forces.

In fact, this is precisely what happened in British Columbia's logging industry. The Rothery Formula was the provincial government's way of extracting timber values. Based on the Vancouver Log market, traditionally a competitive market of many loggers and many mills, the formula captured raw log prices, asked mills what their costs were to transform it, and kicked back a fair value to the taxpayer.

Beginning in the mid 1950's, the influence of multinational capital and structural change meant vertical integrated forestry giants with crown timber supplies had the ability to set internal transaction prices and manipulate the supply of logs to minimize input costs and maximize public subsidies.

The reason they were able to do this is because they were concentrated enough and market differentiated enough that no one would break ranks; it was simply not in a firm's interest to do so.

One of the dangers of market concentration from the economist's standpoint is the ability of firms to act in their own self-interest by drawing pre and post competitive lines: "here is where we will compete and here is where we won't compete."

It made no sense for the big five forestry giants to compete for timber. So they didn't. Quite the opposite. Logs went for fire sale prices.   Sound familiar?

What Canada should have argued in the softwood lumber affair was that the Vancouver log market had become imperfectly competitive and that it was this structural impediment, not government, that had resulted in the conference of a subsidy to BC forestry players.

Strictly speaking, market imperfection is NOT a government subsidy under the terms and conditions of the (then) General Agreement on Tariffs and Trade Tokyo Round.   We should have argued, committed to fixing the problem and put a duty wedge on export wood till the Vancouver Log market more closely equilibrated to the Pacific Rim market.

Was this done?   Of course not. Provincial politicians couldn't say imperfect markets and forestry sector in the same sentence, and the whole affair has cost billions of dollars.

Has Ottawa learned anything from this? Of course not. Do the structural parallels between concentration effects in the forestry sector and concerns in the meat packing sector ring any bells in Ottawa? Of course not.

While the devastation facing Canada's beef sector was certainly triggered by Washington's NAFTA-illegal embargo against Canadian beef and cattle, greatly exacerbated by Ottawa's two-year failure to invoke NAFTA Chapter 20, and clearly prolonged by the Canadian Cattlemen's Association's failure to push Ottawa to defend the rights of Canada's ranchers, the underlying that will remain long after the border is open is the completely unacceptable levels of economic concentration in Canada's packing sector.

In 1989, two years after the removal of the Crow Benefit, grain transportation subsidy, foreign capital entered Canada's beef sector with the investment of Cargill.

In 1994, BP/Tyson followed suit.

The eventual demise of local packing plants means Tyson and Cargill now control 65 percent of fed cattle slaughter in Canada. When Better Beef and XI Beef are included, these four firms represents 85 percent of Canadian fed slaughter capacity.

And incredibly, it's about to get worse.

While Ottawa is ostensibly supporting the development of local, independent packing plant capacity, its competition tribunal is reviewing Cargill's takeover of Better Beef.

If approved by Ottawa, Cargill's acquisition will give it an estimated 48 percent share of the Canadian fed cattle slaughter market and an 80 to 85 percent share of the Ontario market.

This will mean that more than 80 percent of the Canadian fed slaughter and 71 percent of the total Canadian slaughter will be under the control of two American-owned companies.

We have the same problem in our dairy sector: two multinationals, Parmalat and Saputo, control 90 percent of dairy processing. The only difference is, supply management still protects the dairy farmer from the market pressures of concentrated players.

Arguing the right to become "globally competitive", multinationals in Canada's food processing sector have quickly become nation-wide oligopolies.

The question that begs asking, the one we will have to answer to our grandkids, is how in the world did we let this happen?

Sidestepping the entire mess won't work. Every rancher in Canada should be calling on the Competition Bureau to rule against Cargill's acquisition of Better Beef.

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