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ON ITS LAST LEGS?

After 100 years defining our culture and economy, Alberta's historic industry now struggles to survive.

By SHANNON PHILLIPS

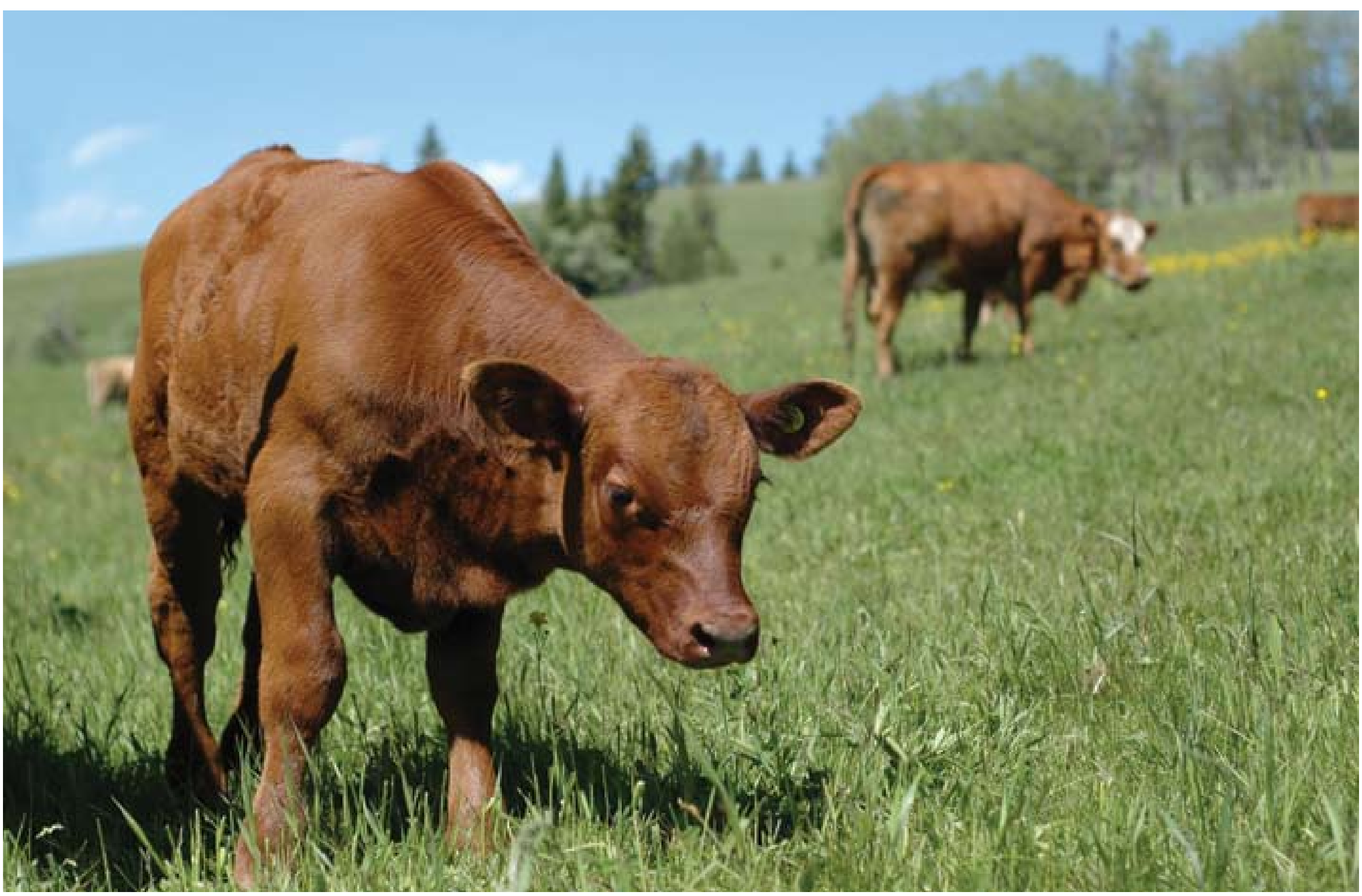

PHOTO: JEFF MILNER

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SCENES OF ROLLING PASTURE, GRAZING CATTLE and towering mountains are quintessentially Albertan; in the south of the province, west of Pincher Creek, High River or Nanton, any tourist with an inexpensive digital camera can compose an iconic photo worthy of a postcard or a marketing campaign. There's an easy, accessible beauty to these landscapes, and a reason why these scenes are both breathtaking and part of the provincial "brand." They suggest hard work coexisting with natural abundance; that stewardship and productive land not only matter to us, but form part of our provincial identity.

But the facts about Alberta's beef industry suggest a crisis. The cattle grazing unhurriedly on foothills pastures are owned by an ever decreasing number of people. There are 20 per cent fewer cattle in Alberta in 2009 than there were in 2006. The size of the provincial herd has dropped every year since 2005. The price farmers get for their cattle is the lowest since the Great Depression. Virtually no one can make a living from a medium-sized, 100- to 150-head cattle operation any more, so families are reducing herd sizes and taking jobs off farm, or getting out of the business entirely. Between mid 2008 and early 2009, according to Canfax, profit margins were negative for all types of cattle—meaning that the average farmer lost money for months on end. Meanwhile, meatpacking companies (which buy cattle from farmers) retain, on average, positive profit margins, and retailers charge consumers the same as they ever have for beef. So why are farmers being put out of business? And why does Alberta have a beef industry crisis on its hands?

AFTER THE SECOND WORLD WAR, CATTLE FARMERS in Alberta could, by and large, make a decent living. As Canadian incomes went up and people moved to cities, farmers had access to a growing and lucrative domestic retail market. When farmers went to auction, many buyers bid on their cattle, as at least 10 meatpacking companies operated in Alberta alone. This meant buyers had to compete for cattle, and with competition came higher prices for producers.

Everything changed in 1989. After the Canada-US Free Trade Agreement (FTA) came into force, US meatpacking giants were enticed to Alberta with millions in provincial government loans and grants. The relatively small Canadian-owned companies, such as Burns, Gainers and Canada Packers, either folded or were bought out by big US players. Over the course of 20 years, the industry consolidated; there are now essentially only two buyers for Canadian cattle—Cargill and XL Foods, which bought the Brooks plant from Tyson Foods in late 2008. About 80 per cent of Canadian beef is processed at two giant meatpacking facilities at High River and Brooks. And as Canadian and US beef industries integrated into a semi-continental market, prices for farmers dropped. Adjusting for inflation, the average price farmers get for a steer in 2009 is half what they got 40 years ago.

After free trade, Canada aggressively pursued beef exports as a way to grow the industry. Just over half of our domestic beef production remained in Canada in 2008, while 40 per cent was exported to the US. In other words, the industry is heavily reliant upon access to the US market.

While there were a smattering of good years in the two decades following the signing of the FTA, the BSE outbreak of 2003 drew a firm line along the 49th parallel, undoing previous years of continental integration and leaving Canada with a glut of supply, a massive price drop and a farm income crisis. BSE put our reliance on the US market in a glaring and unflattering spotlight. Since then, beef producers, the Alberta government and Ottawa have scrambled to reopen American and Asian borders, reassure buyers that our beef is safe and implement new regulations to address BSE concerns. None of these efforts have come to much. On average, prices have continued to drop since the US border reopened in 2005. The result, according to a recent Credit Suisse report, is that the Canadian cattle industry is "in the midst of a massive liquidation."

"The buyers at auction all wink at each other, and there's always a reason why the price is low. The dollar is low, the dollar is high, there's a drought, there isn't a drought, there's BSE, there isn't BSE," says KC Shenton, who runs a medium-sized cow-calf ranch near Pincher Creek in addition to working off-farm. "It used to be there were so many buyers, and you could buy a truck after taking your cattle to town. You sure can't do that anymore."

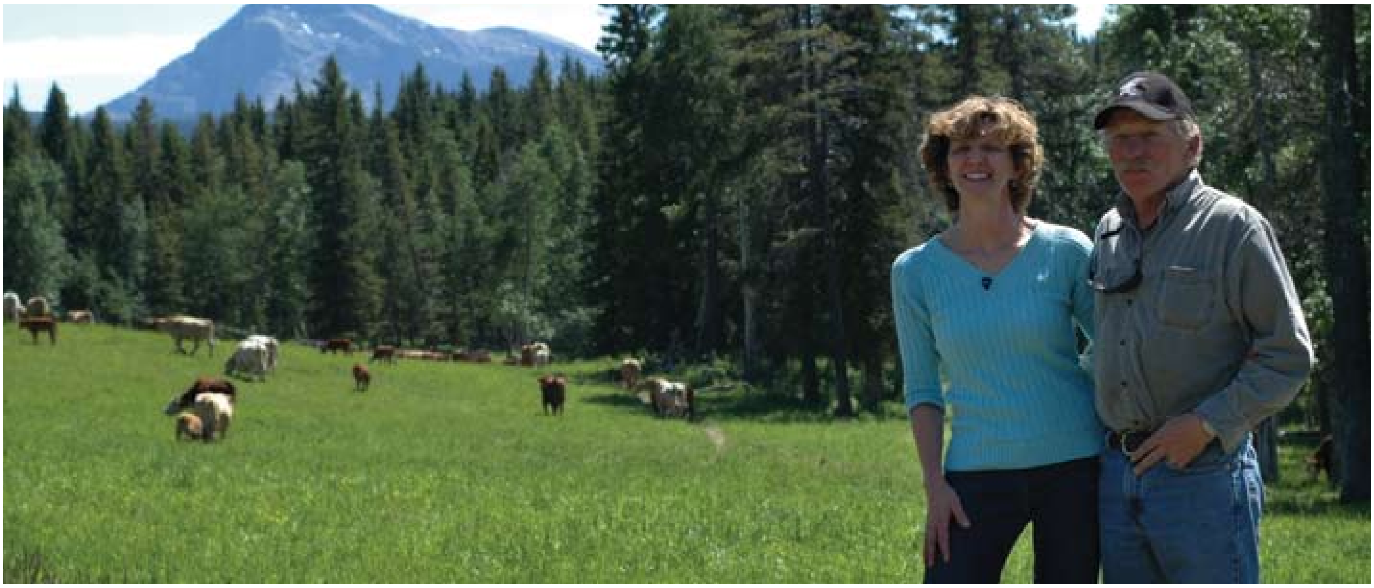
> The provincial herd shrinks every year. The price farmers get is the lowest since the Great Depression.

Up in the Gladstone Valley, where cows and calves graze in picturesque foothills at 5,000 feet, Shenton's animals meander through poplars and on pastured hillsides. "Of course they're healthy—they have to be!" he says. "Otherwise the bears, the cougars or the coyotes will get 'em." Shenton sees himself as a steward of the land his family has owned for three generations, preserving habitat, maintaining wetlands and using selective logging to prevent forest fires.

Though Shenton has to continuously cull cows to keep the herd young, he keeps the cows that produce a good calf every year. He's even got names for the ones that do well. "There's old Liver up there," he says, pointing to a mottled, beige-brown cow. "The neighbour doesn't like Liver. That's just 'cause she's smarter than him," he jokes.

"But if prices don't change, places like this won't exist as a cattle business. If you want cattle raised on grass and clean water, something has to change. Because as margins get smaller, you have to be bigger to make any money. If things stay the way they are, it will have to be a factory business," says Shenton.

The vast majority of the cattle grazing in Alberta's postcard pictures are sold at auction, bought by either feedlots or packers. "People are kidding themselves in terms of what they're



Brenda and KC Shenton on their ranch near Pincher Creek: "If prices don't change, places like this won't exist. It'll be a factory business."

PHOTO: JEFF MILNER

eating," says Shenton. "The minute those animals step onto a feedlot, they're stabbed with a few antibiotics and some growth hormones. When we fatten one of our own for butcher, we have the neighbour do it the old-fashioned way—it's called 'slow feed.' But there's no money in that if your margin is a few dollars and you're only doing, say, 300. You'll die before you'll pay the bills."

IN THE COMMODITY CHAIN, COW-CALF PRODUCERS require land, equipment and time. A cow only has one calf a year, and requires a significant amount of pasture in summer and feed in winter. If the calf dies or gets eaten by coyotes, if the cow gets sick or gets caught in a barbed wire fence, or if, like in 2002 or 2009, there's a historic drought that decimates pasture and drives the price of grain and hay through the roof, producers like KC and Brenda Shenton eat those costs.

Rick Burton, chair of the Alberta Beef Producers (ABP), says cow-calf farmers have been caught in a perfect storm of circumstances for the past seven years. "In 2002 there was a province-wide drought. What feed was available rapidly increased in price. People then flat ran out of pasture, so a lot of cattle went to market prematurely. Then in May 2003 we had the BSE catastrophe, which closed our international markets, including the US. It took two years to get the border open again."

Burton says the cattle industry works on a cyclical basis. "In a ten-year cycle, there'll be two or three profitable years, then two or three average years, and a couple of years of really thin margins. We're always waiting for the big year, and 2003 was set to be that year. Then BSE hit." Since 2003, margins for both feedlots and cow-calf operations have been on steady decline. The old cycles have been replaced with a downward spiral.

Most of the beef in the Canadian food supply goes through the feedlot system, where, in the case of "feedlot alley" in Lethbridge County, tens of thousands of animals are penned together. Feedlots own many of the cattle in their pens, and sell the finished animals to the packers. However, feedlots also "custom-feed" packer-owned cattle. Packers decide when to buy cattle from farmers, feedlots (cows, calves or otherwise) or when to use their own animals for slaughter. Feedlots too get squeezed for costs, especially grain and fuel.

The Canadian National Farmers' Union (NFU), along with over 200 agricultural groups in the US, argue that this is another reason for low prices and farm incomes: the strength, size and small number of meatpacking companies buying cattle. Using techniques the NFU calls "captive supply," packers have been able to increase the profit they squeeze out of every animal.

Darren Qualman, research director for the NFU, says the way packers buy cattle hurts farmers in two ways. "First, and the easiest to understand, is that the meatpacking companies own or control cattle. When packers own or control cattle in feedlots, they don't have to buy from independent sellers. When the price goes up, then they just step out of the cash market and use their own cattle to keep their plant running at capacity."

Qualman says that packers own so many cattle that when they step out of the market, it causes a backlog of animals for producers. This drives the price lower. When it comes time for the packers to bid on the cattle that farmers take to auction, the price is much lower. Academics Clement Ward and Ted Schroeder, of Oklahoma and Kansas State universities, calculate that "for 2006, captive supplies usually comprised 50–60 per cent of the total reported sales in Alberta."

The NFU also objects to what they call the "abusive" contracts packers strike with feedlots, specifically contracts that don't include a base price. Called "forward-pricing contracts," this is when packers agree to buy cattle at a particular time, only to force the price lower when their contracts to buy come up—because they can influence the price via the cattle they own or control. "This squeezes feedlot owners," says Qualman, "who then turn around and pass those low prices on to cattle producers."

There is nothing complicated about beef markets. Agriculture operates according to the simplest logic of supply and demand. Unlike urban people who mostly work for wages, farmers work for the price of the commodity they raise. They sell into a marketplace, and take whatever the buyers will give them. Fewer buyers means less profit, because buyers don't have to compete for supply. That's why farmers of all kinds often work together—through co-ops, limiting supply (quotas) or marketing boards like the Wheat Board. Throughout Canadian history, farmers have also needed government regulation, in order to keep the buyers (food processors, retailers, meat packers et cetera) from getting too big and monopolizing the marketplace. When buyers—in this case, meatpacking companies—get too big, they not only capture more profit, but also exercise more power in the marketplace. We learn about this in Economics 101: when buyers exercise monopoly-like powers, we're no longer talking about a free market, but a planned economy where the price is set by forces other than supply and demand. At that point, talk of competition, efficiencies, free markets and other capitalist sacraments sounds quaint and naive.

POTENTIAL CHANGES IN THE US WILL AFFECT THE local beef industry. When Barack Obama campaigned for president, the number two item on his rural agenda was ensuring open and competitive cattle markets through limiting packers' captive supply. Since Obama's election, the US Department of Agriculture has begun writing new regulations and definitions to accompany already existing laws governing the meatpacking industry and anti-competitive practices. At the same time, a bipartisan group of senators, led by Wyoming Republican Mike Enzi, has introduced a new law that puts limits on packer-owned cattle and forward-pricing contracts as part of the Farm Bill. There are now parallel tracks of action afoot in the US—one regulatory, the other legislative.

Gilles Stockton, a Montana rancher who also works with the Western Resources Council, says he has never—in 22 years of working on the issue—seen this kind of momentum. "The new chief of antitrust in the US Department of Justice is reported to be very aggressive. Two people just appointed to the USDA to the branch that deals with livestock markets are quite understanding of the issue and the remedies we've been proposing."

You won't find a more true-blue, all-American rancher than Mabel Dobbs, who raises rodeo "buckin' bulls" in Weiser, Idaho, where she and her husband have scaled back their 1,000-head ranch over the years. Dobbs has worked for 20 years to get US lawmakers to do something about packer-owned cattle and forward-pricing contracts, as she "watched thousands of farmers go out of business… There are just so few of us left. Farmers aren't even a census category in the US any more."

Dobbs says if she were Canadian, "I'd be looking hard at what's happening in the US, 'cause if we get something done about captive supply, it's going to be real hard on your farmers. Because of NAFTA, they'll be able to squeeze your ranchers even more."

Efforts to limit packers' power in the marketplace are not even on the Alberta Beef Producer's radar. "I don't have the expertise to comment on that issue," says chair Rick Burton, adding that the ABP doesn't support government intervention. When I indicate that there's a difference between outright intervention and ensuring the smooth functioning of free enterprise by preventing monopolies (though the sector is no stranger to intervention: witness the over $20-million in provincial loans and grants to Cargill and Tyson in the 1980s), Burton responds, "I wouldn't presume to sit in judgment as to how big or powerful a corporation should get."

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CARGILL, FOR THEIR PART, DON'T SEEM ALL THAT worried that changes to the way they buy and sell cattle are imminent—they're more worried about how increasing health and safety regulations eat into their bottom line. "[Decisions about captive supply] would have to be for the right reasons, and would have to be undertaken with a full cost-benefit analysis for the whole industry, not just one part, not just the producers," says Robert Meijer, director of corporate affairs for Cargill Canada.

Meijer says that Cargill "doesn't own cattle… we do have partnerships and contracts, but these are voluntary. Producers enter into them willingly." This is, however, splitting hairs: packers who don't own cattle directly own smaller companies that own cattle. They may not own, but they control.

One reason for low farm incomes: the strength of the two largest meatpacking companies.

Meijer is quick to sing the blues about packer profits, adding that "the low Canadian dollar, BSE regulations and input costs make it hard. We find ourselves in an uncompetitive situation." He says that the industry is facing too much regulation, and it may be time to share that burden with taxpayers. However, statistics compiled by the George Morris Centre indicate that the cost to packers to process animals was $150 per head before BSE, and about $170–$200 after BSE. Packer profits, according to the most recent figures available from Canfax, remain at about $20 per animal. Producers, on the other hand, make a profit less than 50 per cent of the time from the animals they raise.

"This is a heavily regulated and cost-laden industry," says Meijer. As health and safety changes are made by governments keen to keep US and Asian markets open, "tough questions must be answered, such as 'what is an industry good and a public good?' We need to look at how the taxpayer pays for some of that. It can't just be shouldered by the producer." In other words, one of the largest food processing companies in the world is also making noise about lining up for a government handout.

The federal and provincial governments are similarly unmoved by potential changes in the US. When the NFU released a 2008 report on captive supply in Canada, federal Agriculture Minister Gerry Ritz responded with a virulent attack on the NFU, accusing them in an industry magazine of not representing "real" farmers. Provincial agriculture secretary Doug Griffiths is less dismissive of questions about the control packers exert in the marketplace, and takes a balanced and pragmatic view of government's role in agriculture. "Any agricultural industry is unique. You don't have 1,000 iron-ore companies out there supplying materials for vehicles… in agriculture, you have to have primary producers and they have to be viable… and buyers in agriculture get larger and larger all the time. That's why we need government intervention more than in any other industry."

Still, the province is focused squarely on securing export markets via new health and safety regulations and marketing techniques rather than addressing the captive supply issue. Griffiths is sympathetic to farmers' concerns about prices, but the province sings from the same songsheet as the packers and the Alberta Beef Producers: "[We] have to be careful that success for one part of the industry is not at the cost of someone else along the value chain. The solution has to involve us all." Griffiths, a young MLA from Wainwright (himself raised in a ranching family), did express reluctance at the notion that companies like Cargill should receive taxpayers' money in order to comply with health and safety regulations.

It's true that Canadian packers are feeling the pinch—their massive plants are not operating at full capacity, which costs them money every day. That's because the system Canadian governments built and encouraged relied heavily on exports to the US, and used the low Canadian dollar as a prop to keep the big packers in business. Exports, however, continue to drop; down 21 per cent in 2008 alone. They aren't expected to make much of a recovery now that the US has introduced mandatory country-of-origin labelling for beef they import.

CHANGING THE STRUCTURE OF THE BEEF INDUSTRY away from an export-led model will have untold costs for all players, from the farm gate on up. Reducing the size of our exports means tinkering with a full 40 per cent of cattle production—a solution that would not be, even in the medium-term, without dire consequences for farmers, feedlot owners and even the packers.

But it's clear the current strategy isn't working. "They've been doing the same thing for 20 years—trying to market our beef in the US and expanding our exports southward. And prices have only gone one way—down," says Iain Aitken, a cow-calf producer in Rimbey.

Aitken argues that while the Alberta Beef Producers and both levels of government spend millions on marketing in the US, a perfectly discerning and moneyed consumer eludes us—Europeans. The EU's ban on the use of artificial growth hormones, insistence on universal BSE testing and aversion to the universal use of antibiotics in livestock, means they don't import Canadian beef. But Europe is never mentioned whenever the province, Ottawa or the ABP talk about market diversification. Aitken pins the blame on the federal government—responsible for regulating growth hormones in beef—for their lack of leadership on accessing the European market.

"There's a market advantage in having more strict health and safety standards in Canada… The federal government has really had no desire to do things differently. We could have done away with the hormones or [used] less—and had that EU market."

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AT THE END OF OUR INTERVIEW, I ASK THE SHENTONS what they would like to read in an article about the Alberta beef industry. Brenda Shenton does not pause in her answer: "Optimism. I want to know where the silver linings are. What can we be hopeful for?"

Many observers say the answer lies in local food—at the farm gate, supplied through local butchers and at farmers markets. While it won't grow beyond a niche market under current circumstances, consumers who choose to buy their beef directly from farmers—bypassing the grocery stores, the packers, the feedlots, the hormones and the antibiotics—are helping local families eke out a living for another year. Aitken, who runs a 150-head specialized breed operation, says his direct sales have increased more than 50 per cent in five years, without any advertising beyond word of mouth. "We direct-market grassfed beef. Selling directly to the customers gives us a bit of optimism and a reasonable return. But it isn't an option for everyone, realistically, and we aren't doing it with all of our cattle."

Mabel Dobbs—the rancher in Idaho—says farmers have to do better at taking the issues to the food-buying public. "These issues are way bigger than we are; us farmers have got to take it to the people! We have to make the consumer understand that when they're eating beef, the farmers haven't been paid in no way. And people are starting to think about what they eat—growing their own gardens, buying organic, and all that. It all helps people see that this can and does affect them."

Individual consumer decisions do make a difference. But as with most issues, the only real way to make change is not to consume our way out of it, but to take a clear-eyed look at the structures of power. In agriculture, that means intelligent government policies and regulations, support for co-operative, farmer-owned enterprises and clear rules that keep the market on a level playing field. It means curbing the power of multinational corporate players, ending the handouts they get from taxpayers and instead putting our public efforts into solutions that will keep an iconic Alberta industry sustainable for generations to come. ■

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Don't Be Cowed

6 ways citizens can beat a corporate monopoly.

1. Get Empowered

☐ Let's say you like beef, but don't like buying it from the two meatpackers—Cargill and XL Foods—that, due to their near-monopoly, are able to squeeze Alberta's beleaguered ranchers. The good news is you have options—as a consumer and as a citizen. And by taking action, you won't just help ranchers. We all benefit from a diversified beef industry; competition keeps prices lower for consumers and higher for ranchers; more activity means more ranches, more support industries, more demand for feed crops—in short, a stronger Alberta economy. It's a win-win-win… except for the big packers, perhaps. But any meatpacking CEO—if they're a good capitalist—should relish the competition. They might even admit that two packers controlling 80 per cent of the market smacks of a very different ideology altogther.

2. Opt Out

☐ Every dollar you spend is a vote for the world you want. You can decline to support monopolies, just as groups of US consumers choose not to buy from bailed-out car companies and growing number of stockholders divest of companies that ignore human rights laws. Visit www.cargill.ca and www.xlfoods.com. Cargill makes everything from beef products to road salt to artificial sweeteners. The much-smaller XL Foods brands their products "The Original Alberta Beef" (which does not constitute an endorsement from The Alberta Beef Producers). Most of the chain groceries sell Cargill and XL products; look carefully at labels (and be prepared to do some research) to see if you're buying beef from them or from any of the producers that constitute the other 20 per cent of the market.

3. Opt In

☐ A better way is to avoid mega-groceries altogether. Buy from small, independent stores and butchers or from your farmer's market. People who work at locally-owned stores and markets are usually happy to tell you where their beef comes from. Another increasingly popular option is farmgate sales, wherein the customer buys direct from the rancher. You can make it cost-effective by buying large quantities and by buying pork, bison, lamb, chicken, turkey, elk or eggs at the same time. The Alberta Farm Fresh Producers website has a link to "protein growers" at www.albertafarmfresh.com/protein.htm. A list of Alberta's organic beef producers (many of whom do not sell to the largest slaughterhouses for environmental or ethical reasons) is at www.agric.gov.ab.ca/app68/organics?cat1=Livestock.

4. Diversify

☐ There are many reasons to eat less or even no beef, but changing your diet is definitely one way to ensure that you're not supporting a monopoly. Various websites (such as the Bison Producers of Alberta's at www.bisoncentre.com) make the case for eating other proteins; the Vegetarians and Vegans of Alberta make their best case for going "cold turkey" at www.vofa.ca.

5. Ask Questions

☐ Monopolies are ultimately allowed or prevented by our laws. But who influences our lawmakers? Find out who's speaking to ministers and MPs—and what they're discussing—at the federal lobbyist registry (www.ocl-cal.gc.ca). Search "Cargill," for example, and you'll get details about company lobbyist Leonard Penner's last seven meetings with the government. Get further info through the Officer of the Commissioner. (Alberta's government pledged to create a lobbyist registry in 2007; it's still "working on it." See www.lobbyistsact.ab.ca.) Monopolies (or "abuse of market power") are a federal matter, addressed by the Competition Act. More info, including how to make a complaint when companies are able to set uncompetitive prices, is at www.cb-bc.gc.ca.

6. Use Your Vote

☐ Does the Conservative party have rural Alberta's interests at heart? As the government, it paid US packers to move here, stood by as locally-owned packers vanished and cattle prices plummeted, and continues to fail to diversify export markets. (Oil companies, on the other hand, need only *tsk* in the premier's direction and royalties drop faster than you can say "spirit to achieve.") The PCs' former leader famously proposed that ranchers finding a case of BSE "shoot, shovel and shut up"—thereby casting undue suspicion on the industry as a whole. Surely such "leadership" doesn't deserve any more support from rural Alberta. Vote for MLAs who support packing co-ops, sustainably-raised beef, and a moratorium on subsidies to packing giants. Ranching can be on the local agenda again—if we put it there.

—*Evan Osenton*

ISTOCKPHOTO: DAVID FOREMAN