Safeguarding a Vibrant,Wealth-Generating Cattle Sector for PEI

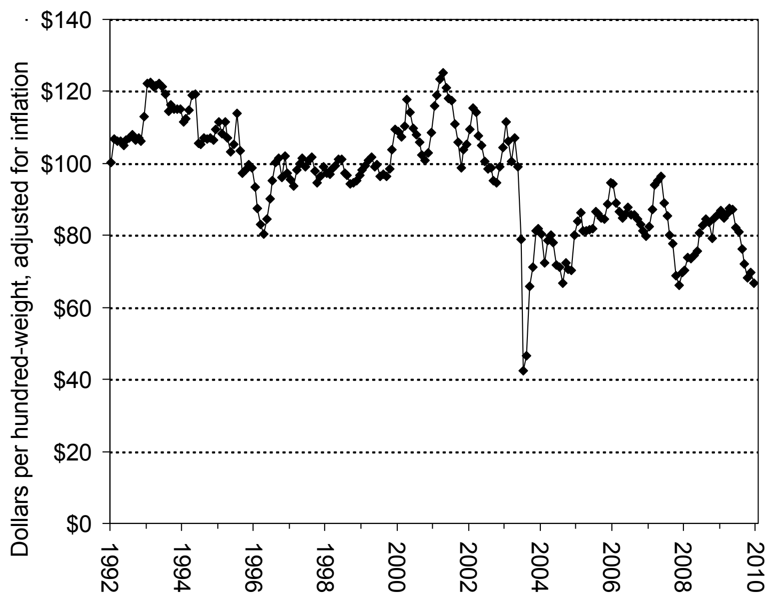
A report by the National Farmers Union
Region 1, District 1 (Prince Edward Island)

Charlottetown, PEI March 25, 2010

A problem not of their making

Figure A, below, shows the prices for Prince Edward Island (PEI) slaughter steers (also known as "fed" or "finished" steers) for the past 18 years. The prices are adjusted inflation, that is to say, the prices are stated in 2010 dollars. The units are dollars per hundred-weight, live-weight. ($100 per hundred-weight equals $1 per pound.)

Figure A. Prince Edward Island slaughter (finished) steers (dollars per hundred-weight, adjusted for inflation)



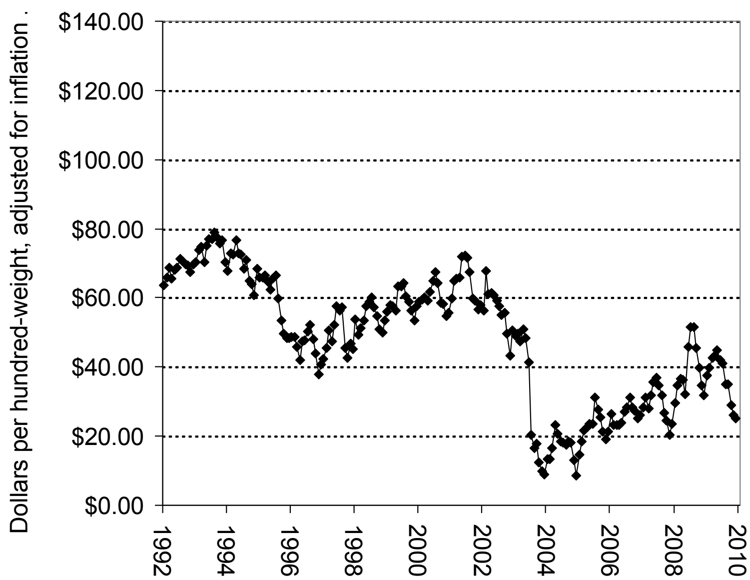
January 1992 – January 2010
Sources: Statistics Canada CANSIM databases.

Note price levels before the 2003 discovery of Bovine Spongiform Encephalopathy (BSE). Pre-2003, with only one or two exceptions, PEI finished cattle prices were consistently in the range of $90 to $120 per hundred-weight. Since 2003, prices have been in the range of $70 to $95. Seen another way, in the pre-BSE period for which we have data (January 1992-May 2003) the price of finished steers in PEI averaged $104.93 per hundredweight. The average price for the period since May 2003 is $79.76. PEI cattle producers selling finished, market-ready cattle are receiving $25 dollars per hundred-weight *less* for their animals than they did before the BSE crisis. That adds up to $325 per animal on a 1,300 pound slaughter steer.

For nearly seven years, PEI cattle producers have endured prices far below historical norms. Cattle farmers in this province are suffering as a result of events far beyond their control.

And it is not only the price of finished cattle that has been reduced. Figure B, below, shows that cull cow prices (slaughter beef and dairy cows) are also deeply depressed compared to pre-BSE values. Prices since 2003 have averaged *less than half* of prices before that year. For a 1,200 pound cull cow, PEI farmers are receiving $330 per animal, compared to $717 before 2003—a difference of $387 on each cow that goes to market. Farmers are now in year seven of that unbearable price situation.

Figure B. Prince Edward Island slaughter (cull) cows (dollars per hundred-weight, adjusted for inflation) January 1992 – January 2010



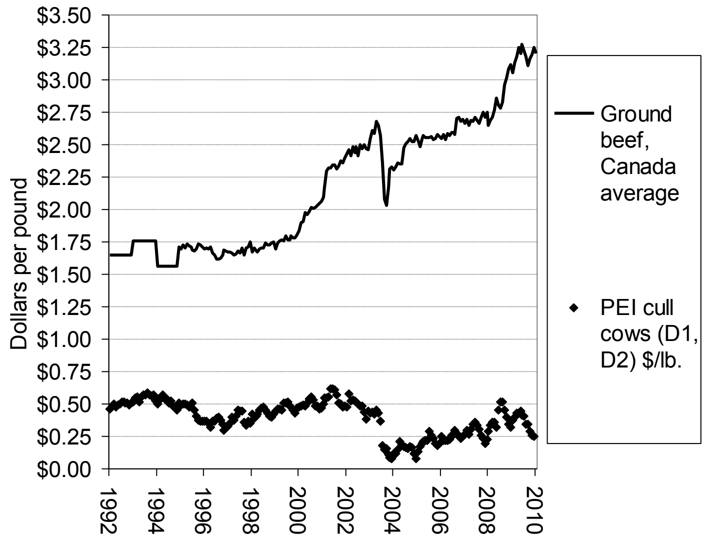
Sources: Statistics Canada CANSIM databases.

Clearly, the PEI cattle sector is shouldering devastating losses not of its own making. Cattle producers here are hard-working and productive. They enjoy an advantageous climate and utilize up-to-date technology to efficiently raise their animals. The cattle sector in PEI will be damaged, perhaps irrevocably, if producers are not assisted to deal with this externally caused price and profitability collapse.

Moreover, financial damage to cattle producers will have negative repercussions all through the Island's agricultural sector. Cattle and feedgrain production is an important part of a diversified agriculture system on the Island. Cattle and feedgrain production here facilitates crop rotations for potato growers, recycling nutrients, and providing local foods.
One final point needs to be made regarding the low prices paid to farmers: those low cattle prices are not translating into low retail beef prices.

Figure C, below, shows PEI slaughter ("cull") cow prices (live weight) and Canada-average retail ground beef prices for the past 18 years. Prices are in dollars per pound.

Figure C. PEI cull cows and Canadian retail ground beef prices (dollars per pound, not adjusted for inflation) January 1992 – January 2010



Sources: Statistics Canada CANSIM databases.

The graph clearly shows that lower prices on our farms do not translate into lower prices in the stores. It also shows that the dominant meat packers—the ones that set the North American prices for cull cows and other cattle—could certainly afford to pay more. The crisis in the cattle sector in PEI would be largely solved if farmers today were receiving the same portion of consumers' grocery store beef dollars that farmers received a decade ago. The cattle crisis is far from insoluble. A relatively modest re-allocation of dollars within the system would restore prosperity to cow-calf producers and independent feeders. In the medium- and long-term, that re-allocation must be the solution.

PEI cattle producers are efficient and productive—creating real wealth for our economy from soil and grass and water and sun. Farmers, citizens, and elected representatives must not let our cattle sector be weakened or diminished. PEI cattle producers are the victims of factors beyond their control, thus it is completely appropriate that governments and citizens come to the financial aid of farmers, to maintain short-term stability while medium- and long-term solutions are formulated.

The causes of low cattle prices extend far beyond BSE, though BSE is certainly a factor. For a full exploration of the problem, see the NFU's "The Farm Crisis and the Cattle Sector," November 2008. But despite the fact that the current crisis plaguing PEI cattle producers has multiple causes, one thing remains clear: if prices were close to their pre-2003 levels, the crisis in the sector would be very much reduced.

The case for a strong, wealth-generating cattle sector for PEI

Cattle production is important for its own sake—until 2003 it added to net farm income and supported farm families on the Island. But cattle production is also important for two other reasons: 1) cattle raising forms part of an integrated system of beef production, processing, and retailing—creating jobs and wealth and keeping grocery-store dollars in the province; and 2) farming is a set of inter-related and inter-dependant processes—a significantly reduced cattle sector will weaken all other sectors of the PEI farm economy.

Currently, when a family in a grocery store in Summerside or Souris puts $20 on the counter to buy beef, more-often-than-not that $20 works its way through the PEI economy. Much of that money makes its way back to the Atlantic Beef Products (ABP) plant in Albany where much of that goes out into the community in wages. Some of that money in turn gets passed back to PEI and Maritime producers who raised and provided the cattle. These farmers in turn make purchases in local stores and support a range of fuel, equipment, and farm input dealers. Thus, PEI citizens' grocery store beef dollars circulate here, creating employment and further spending. If we abandon our farmers to the destructive vagaries of dysfunctional markets, our cattle production sector will be damaged and diminished. If production is diminished, we may then lose our processor, ABP. If that occurs, citizens' beef dollars will be fast-tracked out of the local economy, to companies, workers, and farmers in Quebec, Ontario, Alberta, the US, or South America.

No one underestimates the challenges and costs of supporting the ABP plant in Albany, or in doing the same for Island cattle producers. Such action involves costs. But what everyone needs to understand is this: there are even larger costs—huge and very long-lasting—to losing a key sector of our food system, and losing the circulation of dollars that sector creates. Short- and medium-term investment can safeguard a cattle and beef system that will, long term, bring dividends and jobs to the province.

The second major reason that it is good public policy to provide financial assistance to cattle farmers comes with the realization that farming is interconnected—the sectors are interdependent; critical infrastructure is not specific to just one sector. Fewer cattle means decreased feedgrain sales. That reduces options for potato farmers who need to rotate crops and control erosion. One cannot chip one sector after another from PEI farms and expect the remaining sectors to prosper. The loss of one sector threatens to topple the next. Lose too many sectors and the entire agricultural structure could fall.

The PEI hog sector: a cautionary tale

Our hog and pork sectors are disintegrating. They are now caught, perhaps irretrievably, in a vicious circle—a positive feedback loop of the worst kind wherein decline begets decline, loss feeds into still more loss, all at an accelerating rate. The closure of processing plants leads to lower prices which leads to fewer producers which leads to the closure of plants. It now appears likely that hog and pork production east of Quebec will largely cease.

Much can be said about PEI pork processing plant Garden Province Meats—how it was managed, how much public money was put in, why it was closed, and what could have been done differently. But it is clear in hindsight that the closure of that plant contributed to, indeed accelerated, the destruction of the PEI hog and pork sectors.

Garden Province Meats —in its Natural Organic Food Group (NOFG) incarnation—closed in 2008. In the wake of that closure, tough times for PEI hog producers got tougher. As the months went on, more and more farmers read the writing on the wall and got out. Production fell. Now Maple Leaf, citing declining production in the region, has announced it will close the fresh pork kill line in its Larsen's plant in Berwick, Nova Scotia, the last major hog slaughter facility in the region.

In hindsight, the terrible feedback loop is visible: Fewer pigs led to fewer packers and, thus, lower prices; this led to fewer pigs and still fewer packers. The un-building of the hog and pork sector ensued. Just before Garden Province/NOFG closed in 2008, Statistics Canada reported just over 95,000 hogs on PEI farms. Today, there are 43,000—less than half the level that existed when Garden Province closed. And the trendline is steeply downard. It is not surprising that the Larsen's plant is having trouble sourcing Maritime hogs. And it will not be surprising if there are less than 20,000 hogs on PEI farms a year from now.

In 1871, there were 52,514 hogs in PEI.[1] There may soon be half that number here. PEI may soon be home to the lowest number of hogs in 150 years. Given the wealth of the region, relative to the 1870s, the implosion of the hog sector is astounding.

This report cannot detail all the contributing factors to the demise of the Garden Province plant or the PEI hog sector. But this paper is focused on spurring governments and citizens to act to ensure that the utter collapse of our hog and pork sectors is not replicated for our cattle and beef sectors.

1 See M.C. Urquart and K.A.H. Buckley, eds., *Historical Statistics of Canada*, Toronto, The Macmillan Company of Canada Limited (and the Cambridge University Press), 1965.

Conclusions and recommendations

The crisis in the cattle sector is, at least, national—almost certainly international. In this context, Prince Edward Island and its 141,000 citizens face significant challenges in responding to that crisis. The province's struggle in recent years to keep the ABP plant running highlight the magnitude of the challenge we face. But the destruction of the Maritime hog sector points out the carnage that can result if governments and citizens do not act with sufficient vigour.

For the good of the province, all its citizens, our interconnected economy, and for farmers, the National Farmers Union makes these recommendations:

1. The Government of PEI should create loan guarantees for farmers purchasing cattle, so that producer who feed cattle can continue to buy calves and feeders from cow-calf producers.
2. The government should provide financial assistance to cow-calf producers amounting to at least $350 per calf. Until marketing systems are in place to assure cow-calf producers receive prices that cover their costs of production, these farmers need financial assistance.
3. The government of PEI should investigate the growing gap between what consumers pay for beef and what farmers receive for cattle. The aim should be to reallocate dollars within the system so that producers selling cull cows receive prices equal to those received before 2003.
4. The government should investigate the cost of forgiving cash advances currently owed by cattle farmers.
5. Administration fees on Canadian Agricultural Income Stabilization (CAIS) program re-payments need to be eliminated/forgiven.
6. The United States has backed away from mandatory cattle identification and traceability. Canada continues to pursue such schemes. In light of farmers' negative returns and the slim chance that cattle prices will improve to cover farmers' tagging and tracing costs, these costs should be paid by all Canadians.
7. Federal and provincial governments must create legislation to ban the ownership or control of large feedlots by industrial corporations. Similar legislation must be created to ban captive supply of cattle—ownership or control of cattle by meat-packing corporations.
8. Crop insurance requirements to destroy milling wheat due to high Fusarium ("DON") toxin levels should be changed to permit utilization in feedlot rations.
9. Federal and provincial governments must change the "viability test" within Agri-stability so that hog and beef producers facing protracted price shortfalls not of their own making are able to continue to draw adequate safety net payments from the system.

Respectfully Submitted by the
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