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Prairie People’s Packers Pending: The New Generation Cooperative Model of Cattle Slaughter

Geography

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Prairie People's Packers Pending: The New Generation Cooperative Model of Cattle Slaughter

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Structure of Talk

- Cattle exports & staple theory
- BSE Crisis
- Ruminant slaughter capacity expansion
- New Generation Co-ops & small scale cow plants
- Prairie People’s Packers Pending?
Staples approach

• “Liberal staples theory” (Janine Brodie)
  – Backward, forward, consumer demand
  – Spread effects → industrial development

• Pessimistic staples theory
  – Dependence on the core for staple markets & capital
  – Staples trap of dependency, stagnation
  – Metropolitan-hinterland dimension of uneven development
  – West as an internal colony of central Canada
    • Subordination and underdevelopment born of the National Policy of 1879
The Staple Trap and Canada’s Cattle Trade

• Canada exported mainly grain
• Modest exports of stockers & feeders to U.S. until 1980s

• Exports of slaughter cattle from 1980s
  – Including culls for manufacturing beef
Canada’s live cattle trade, 1920-2005

- Thousand head of cattle
- Cattle imports
- Cattle exports
- Smoot-Hawley
- Hoof & mouth
- U.S.
- U.K.
- No OTM i.e. no cows
- BSE

Canada’s live cattle trade, 1920-2005
The BSE Crisis

• May 20, 2003 & border closure

• Why was the crisis not a catastrophe?
  – General resiliency of agriculture
  – Relative flexibility of cattle husbandry
  – Border opened fast to boneless beef
  – Favourable trend & cyclical conditions
  – Governments in surplus with deep pockets
  – Beef consumption increased!
It could have been worse!

Agriculture
2001 record dry year in region

Change in January 1, 2003 cattle inventories for selected provinces
Percentage change from 2002

- Ontario
- Quebec
- Saskatchewan
- Manitoba
- Alberta
In Focus
A Weekend Photo Portrait of Southern Alberta

Show of support
Source: Statistics Canada, Livestock Survey
Strategy to Reposition the Canadian Livestock Industry.

• Federal government, 10 Sept 2004:
  – reopening the U.S. border
  – facilitating increased domestic slaughter capacity
  – sustaining the industry until capacity is increased
  – increasing the international market share of Canadian beef.
Recommendation: “shifting the industry from being ‘live animal oriented’ to ‘meat and processed products oriented’ and increasing the meat processing capacity in Canada.” (2005, p. 3)
Hon. Stephen Harper (Leader of the Opposition, CPC): “Mr. Speaker, our farm families were told that the border would be opened. Now the border is not open. They do not want to have more wait and see. They want the Prime Minister to look and to take some action. Slaughter capacity must be increased.”

(House of Commons, Debates, March 8, 2005)
Programs to Increase Slaughter capacity

- **Ruminant Slaughter Loan Loss Reserve Program**
  - Loans for the expansion & establishment of small and medium-sized slaughter facilities.
  - $37.5-million reserve + a further $17.1 million in the 2005 Budget

- **Ruminant Slaughter Equity Assistance program**
  - Must be producer-led & expand slaughter capacity by 2007
  - Match up to one-half of a producer’s investment to a maximum government contribution of $20,000.
  - $10-million total
Canada’s new packing house map

While we wait for the U.S. border to open to Canadian cattle, producers and entrepreneurs across the country aren’t waiting for the bureaucrats. These men and women are trying to expand Canada’s beef packing capacity. They come in all sizes but all share an unshakable belief in the future of our cattle business. Here’s a quick coast-to-coast rundown on the changing map of our packing industry at the start of 2005.

**BRITISH COLUMBIA**

Rangeland Beef Processors/Blue Mountain Packers, Salmon Arm

This private venture of 6 Alberta ranchers was approved by the Canadian Food Inspection Agency and began slaughtering cows on November 10. Rather than try to build a new facility, they bought the mothballed Blue Mountain plant at Salmon Arm by selling 300 shares worth $5,000 each. Shareholders receive dividends on profits after 2 years, and a transferable right to ship 25 head per year for each share. Debt capital is supplied by Farm Credit Corp.

This federally inspected plant meets EU standards but, of course, will process cows and bulls for sale to domestic processors for the foreseeable future. Last month it was processing 40 to 50 head per day with plans to ramp that up to its current maximum capacity of 250 per day, or 1,250 for a 5-day week.

Peace Country Tender Beef Co-op Ltd., Dawson Creek

This new generation multi-species slaughter co-op is still in the talking stage. They need to raise $7.2 million, 30% ($2.16 million) from members, 20% ($1.44 million) from investment capital and 50% ($3.6 million) from loans. By December 520 producers had bought a minimum of ten $60 shares. Each share provides the right to deliver one head per year. Investor dividend shares also go for $60. After the first share offer expired in November they renewed the offer, allowing producers to pay for half the share in cash and half to debt against future cattle deliveries.

Spokesman Neil Reasor says their plan is to begin construction of a plant able to process 1,000 head/week starting in April 2005. The land was bought for $100,000 from the City of Dawson Creek and road work is underway. The co-op plans to offer KSR to customers who want it.

It will be a multi-species plant designed to handle fed and mature cattle, hogs, goats, elks and sheep.

**ALBERTA**

Cargill Foods, High River

Cargill’s $32.5 million 3-phase expansion is well underway and is scheduled for completion in the fall of 2005. A reworked

**Existing large scale plant expansions:**
- Cargill, High River
- Tyson Foods, Brooks
- X-L, Calgary

**People’s Packers**
- Mainly NGCs
- Salmon Arm, B.C.–Borden, PEI
- Middle-sized
“Canada doesn’t need any more cattle slaughter capacity. Furthermore, by encouraging producers to build slaughter plants now by subsidizing them, producers are likely to lose their investment.” (November 2, 2005, p. 1)
Canadian Weekly Cattle Slaughter Capacity

Source: Estimates provided by Red Meat Section, Agriculture & Agri-Food Canada
People’s Packers Characteristics

• Many are New Gen Coops
  – Or quasi New Gen Coops

• Flexible technologies
  • Hot boning
  • Slower chain speeds
  • Quality/differentiation

• Team approach to carcass fabrication
• Traceability
• Natural/organic beef – large specialty markets
• Value-added processing

• Fordist → Neo-Fordist transition
  – A new generation of community-based flexible production
What is a New Generation Co-op?

- Co-op with investment characteristics
- Members own shares which are tradable
- Shares are **delivery rights & obligations**
  - E.g. $50,000 for 200 hooks
- Membership is closed when shares sold reach plant capacity
- Motivated to integrate supply chain & boost value-added
- Shares expressed in bushels or “hooks”

\[
\frac{\text{Equity}}{\text{Capacity}} = \text{Share price}
\]
## Expansions to Canadian Weekly Cattle Slaughter Capacity - Corporate Packers

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Organization</th>
<th>Capacity</th>
<th>Status</th>
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<tbody>
<tr>
<td>Cargill Foods</td>
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<td>St. Cyrille-de-Wendover</td>
<td>Coop</td>
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<td>Name</td>
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<td>Construction</td>
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Prairie People’s Packers
• Turning to existing, large scale meat processing establishments owned by multilocalational firms...
Conclusions

• Crisis, staples trap
  – Volatility of commodity trade
  – Regional specialization
  – Export dependency
• Impact of BSE: capacity expansion
  – entrepreneurial initiatives such as NGC
  – coping (Rice) with regional surplus of cull cattle
• Will they be realized?
• Will they succeed?
• Model optimal plant locations?