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### CARGILL LIMITED

*Barb Isman*

Thank you for the invitation to join you this year as you look for ways to make a positive contribution to our industry. I am particularly pleased that you have also invited my colleague from Saskatchewan Wheat Pool (SWP). I have often thought, when paper after paper has been prepared on the future of the western agricultural industry, that policy analysts might use their time and resources most wisely if they simply talked to three companies: SWP, Cargill and one company not present, Monsanto. Among the three companies, you will capture most of what will happen commercially in the western agricultural sector from a relatively non-academic commercial perspective. I would recommend that you include Monsanto next year.

I will use the time I have to comment most specifically on the Canadian paper—for three reasons. The first is that I have finally learned that it is extremely dangerous to set yourself up as a critic when you know less than either of the presenters or the audience, and that is the case for pork and U.S. beef. Second, even without credentials to comment, I tend to agree with the U.S. paper. Finally, I had intended to make a pitch for further economic analysis on the benefits of reciprocal beef grading, but after talking to Chuck Lambert, I decided that politics, not economics, will prevail on this issue.

In many respects, the paper on structural change in the Canadian livestock industry accurately reflects what is happening in the beef industry. What I will try to add is the “why” to what has and is occurring.

For convenience, I will follow the author’s framework, commenting first on trade liberalization. Then, I will share some thoughts on what is described as globalization, particularly as it pertains to meeting consumer demand for specific kinds of product of the highest standards. I will mention briefly how we are doing with Beefworks and Hazard Analysis Critical Control Points (HACCP). I will take the authors to task, just slightly, for their reference to the lack of interface between packers and retailers. Finally, I will comment on what direction processors are moving with respect to research and development.

**Trade Liberalization.** The authors contend that the Canada-United States Trade Agreement (CUSTA), the North American Free Trade Agreement (NAFTA) and the Uruguay Round were not critical factors in our decision to greenfield the High River plant. That is correct. I would like to tell you what the critical factors were, however, and you will see that they are in a generic sense linked to trade liberalization.

Tom Sporleder identified in his presentation the primary reason for moving into the Canadian market—internationalization. Cargill, during the 1970s and 1980s, had mandated a target of doubling sales every five years. To do that, it was necessary to seek out new locations in which to exploit core competencies—a prime target was meat processing. A second reason for entering the beef market was also related to trade but in a somewhat back-handed fashion. We tried both chicken and pork in the late-1970s and early-1980s and failed because we did not know how to do business in a trade-restricted market. We thought we would have more success with beef because it was not supply managed by government. The final reason we entered the beef business was also trade-related. But again—trade from a perspective not mentioned by the authors—the implications of increased consumer access to competitive products which occurs with trade liberalization.

In the case of the Canadian beef packing industry, there had been shockingly little attention paid to the coming reality of increased import competition. In fact, when we sought out possible acquisitions to enter the market, we were amazed by the antiquity of the Canadian industry relative to the United States. We saw an opportunity to build a new plant capable of serving Canadian consumers cost-effectively and we took it. The only nod we gave to the expanded market opportunity for us as a result of CUSTA/NAFTA/etc. was to make provision in the new plant for a second shift.

To summarize, our decision to enter the Canadian beef business was driven by internationalization, not specifically by recent trade agreements, but rather by generic trade liberalization. Within Cargill, by the way, we actually call internationalization, “globalization.” I did not want to do that here because the authors use the term “globalization” slightly differently.

**Globalization.** Following the author’s train of thought—globalization as a driving force to achieve transactional efficiency and to satisfy consumer demand for food quality. There are several comments to make on this point. The first is that the consumer is truly driving this bus—whether or not he or she knows it. Every time chicken is picked instead of beef, or someone buys hamburger, or even thinks twice about buying the hamburger at all, because of E. coli, it has an impact. Product suppliers are being driven to do a better job of meeting their consumer demands.

The consumer is the reason why we are pursuing closer links between the players in the supply chain. So what are we doing? The authors refer to a couple of pieces in the puzzle—formal quality assurance programs in the plant through HACCP and on the farm through initiatives such as Beefworks. But, they have not emphasized two other pieces of the puzzle strongly enough—our involvement as cattle-owners and our work with retailers.

Cattle ownership as well as producer incentive programs will represent an increasing percentage of our throughput requirements over the next five years. I want to add a quick aside on Beefworks—which is in its infancy. As yet, producers have been somewhat slow to respond to the Beefworks program. This may be a result

of the direct relationship between Beefworks and use of our feed company products. Producers are more familiar with and comfortable with our other incentive programs based on weight and grade. This may simply be a function of time—after all the program is new. However, it may be that we will need to reward quality separately from feed purchases for some time to come.

What is to me a missing component in the analysis is the absence of positive reference to linkage up the chain from packer to retailer. For more than three years now, Cargill has been the butcher for National Grocers in Ontario. You will know them better as Loblaws, the largest retail grocer in Ontario.

In this extraordinarily tight strategic alliance, we work for only one customer. Loblaws relies on us to supply packaged case-ready meat products. Why should we respectively put so much at risk? Plain and simply it goes back to the consumer. We are able to utilize economies of scale to produce not only a more cost-effective product, but one which is uniform and wholesome.

This program has been so successful that we are replicating it with Kroeger in the United States. This, we believe, is a trend which will only grow and is part of an evolution from carcass to boxed beef to what is now a finished product. With this kind of linkage, I seriously doubt we will see retailers independently moving down the supply chain to have their needs met. I would only further mention that we do not see a significant expansion in breed-specific product handling. Rather, we see the Triple AAA grade as our most effective tool to satisfy the consumer.

**Research and Development.** The final piece of the consumer demand puzzle is, in fact, the author's final topic area, research and development (R&D). We have invested significantly in technology such as steam pasteurization and in meeting HACCP requirements. I believe that processors will continue to focus R&D in this area and, at least over the next five years, and will leave biotechnology to others. My only cautionary note to the industry is that this may be a marketing danger, particularly if we allow the scientists to produce that which we cannot sell to consumers, as has been the case with canola.

To summarize, we see two major factors at work in creating structural change in the Canadian beef industry or the "why", if you will:

- First, internationalization—or globalization as we call it—and the choice that brings consumers to prefer Canadian beef.
- Second, the aggressive competitive fight among retailers and packers to be the consumer's choice.

