Food, Inc.

Corporate concentration from farm to consumer

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Summary

Over half of the population in the developing world is rural and 2.5 billion people worldwide depend on agriculture for their livelihoods. Although the food chain as a whole is very profitable, the terms of trade for primary producers have declined, the gap between producer prices and retail prices has grown, and family-scale farmers are finding themselves excluded from higher value markets and facing livelihood crisis.

The roots of low farm prices lie in oversupply. This is driven not just by subsidies and 'dumping' of surplus products on world markets, but also by a complex interplay of trade liberalisation and intense global competition; deregulation and the end of international commodity agreements; new technology; reduced transportation costs; debt; lack of alternatives; and, last but not least, market power concentrated in the hands of powerful buyers in the trading, processing and retailing industries. These combine to ensure that in many agricultural commodity markets, price no longer regulates production. Producers, whether of bananas or milk, coffee or pigs, are faced with 'immiserising growth', which means they must produce more but earn less. This is not only the trend in commodity exports from the developing world, such as coffee, but is also felt keenly by suppliers to domestic markets worldwide.

The marginalisation of agriculture is a profound threat to sustainable development. Many see agriculture as the means to reduce poverty and to deliver multiple benefits such as preserving a rich diversity of cultures, wildlife and landscapes. If the economic tide of the food system continues to slide away from farming, then those expectations will not be met.

Much attention has been focused on market distortions caused by protectionist trade policies. But even if unjust trade rules were to be reformed, disparities in bargaining power, scale, market access, information or access to credit may still entrench anti-poor and anti-rural bias in markets. Coffee growers continue to face a market in which three companies account for 45% of roasting activities. Four companies control 40% of cocoa grinding, while in soy and livestock the same three companies have the lion's share of crushing and feed production along the entire chain from South America to Europe. Most significantly, producers and processors face a global supermarket sector where the top 30 companies account for around one third of grocery sales. Nationally the top five supermarkets often account for 70% or more of grocery sales.

Why does it matter that so few companies control such a large proportion of the world's food production, processing and retailing chain? The key issue is the trend towards vertical coordination of agrifood chains, whereby key agents such as a food processor or retailer sets the 'rules of the game' for participating in the chains.

Vertical coordination gives great power to those firms coordinating the particular commodity chain. This power can override market-based transactions, with big implications for pricing and the wholesale market. Vertical coordination also creates 'insiders' and 'outsiders'. The suppliers who have deep enough pockets, low enough costs and the right kind of technology to meet rapidly changing requirements in volumes, standards and new product development can benefit as 'insiders'. Their environmental and social performance credentials may also be higher than average because they have the capital and economies of scale to invest in such practices. The majority of smaller and family-scale enterprises (the 'outsiders') are left as residual suppliers to bulk commodity or wholesale markets, at a time of reduced state support in the form of safety nets.

Supply chains are developing in such a way that a large number of competitive and relatively powerless suppliers face a few large buyers. Farmers are playing to the rules of perfect competition while their customers are part of a complex monopoly. The savings that food processors and retailers accrue from paying suppliers below competitive levels are often passed on to consumers to gain market share. Value is thus transferred (1) from producers and rural areas to consumers and urban areas, and (2) from commodity producing countries in the 'developing world' to consuming countries in the industrialised world.

Growth of supermarkets and the 'modernisation' of the retail sector often proceed under the radar of public policy, with very little government influence or support. And yet these developments can have profound impacts on the structure of domestic agriculture and food processing, and these patterns are moving into mid- and low income countries.

Some examples from selected commodities are as follows:

Cereals and oilseed have virtually no retail demand and are sold as inputs to industrial processes that yield livestock feed, bread and sweeteners. Trading and processing (crushing, milling) are highly concentrated, with Cargill and ADM alone reputed to control around three-quarters of global cereals trade, while Bunge, ADM, Cargill and Dreyfus dominate oilseed trading and crushing. The presence of all these Big Four companies in both North and South America allows them to balance their global presence to profit from whatever differences in price, demand, subsidy, tax breaks, labour or environmental standards exist between regions. Corporate concentration is now one of the main concerns of American farmers. Despite this level of concentration, the wheat-flour-bread chain in the UK has slim profit margins due to a tradition of below-cost or at-cost selling by supermarkets.

Sugar production and processing plays a key role in the economies of least developed countries such as Swaziland and Mozambique. World prices have been declining since peaks in the mid-70s and early 80s, fuelled by over-supply in part due to protectionist sugar regimes in the EU and US. As with soy, the major sugar traders are highly integrated, controlling both production and processing. The Big Three in global sugar trading and refining are Cargill, Dreyfus and Tate & Lyle.

Coffee and cocoa Coffee has stirred up the greatest controversy in the current round of concern about commodity prices. Roughly half of the world's coffee supply comes from small farms with less than five hectares in coffee production. Low prices are driving poverty, ill-health, unemployment, lack of education and forced migration, and a risk of increasing diversification into proscribed crops such as coca or illegal logging. The balance of power in the coffee chain has shifted dramatically in favour of commercial interests in the industrialised world, with only around 10% of retail value retained in producing countries. Trading is quite concentrated, with four companies controlling around 40% of global trade, but without countervailing power against the roasters in an oversupplied buyers' market. Coffee is a roaster-driven chain – the big coffee roasting companies, Nestlé, Kraft, Procter & Gamble and Sara Lee/Douwe Egberts, through their control of 45% of the global market, are big enough to provide price leadership. Speciality coffee (10% of worldwide production) represents a transition of part of the market from bulk commodity to a buyer-driven chain. Cocoa is also strongly linked to poverty – 14 million workers are involved in its production, over 10 million in Africa. As with coffee, the 'developing' country contribution to value-added in the cocoa sector has halved to around 28% over the past 30 years. Market liberalisation has provided opportunities for coffee and cocoa exporters to connect directly with world markets, but the withdrawal of governments from centralised price setting and marketing has caused finances for small operators to dry up, and exposed farmers directly to extreme market volatility and the hard bargaining power of commodity buyers.

Dairy is another market skewed by subsidies, but the relative importance of subsidised exports is declining, and non-subsidised exporters such as New Zealand, Australia, Argentina and Uruguay are becoming more important global players. Dairy giants such as Nestlé, Danone and Parmalat are moving to where growth in consumption provides growth opportunities; some dairy processors have got out of the commodity processing business and shifted into branded value added products. The case of Brazil is illustrative of the global trends in the sector. Deregulation of the dairy market in Brazil saw the large dairy cooperatives sold to multinationals, and the retailing of milk has shifted rapidly into supermarkets. As a result of higher price competition, dairy companies have consolidated their supply bases to reduce transaction costs. Nestlé alone shed 75% of its list of supplier farmers between 1997 and 2000. Standards instituted by leading processors, such as the adoption of refrigeration tanks at farm level, immediately pushed half of Brazilian milk producers out of the leading companies' supply system. Downward pressure on processors' margins from deregulatrion and increased supermarket purchasing power is also very apparent in the UK, exacerbated by a supermarket tradition of below-cost selling. Fragmentation at the farm level amidst consolidation in milk processing has placed dairy farmers in a weak and vulnerable position.

Poultry and pork production is rapidly industrialising, with 'developing' countries following the same trends as North America and Europe. A few vertically integrated agribusinesses such as the Charoen Pokphand and San Miguel groups in SE Asia combine breeding, feed supply, production on own farms and contracted production with independent growers, as well as processing and marketing for retail and food service sectors. Impacts on rural

livelihoods, the rural and peri-urban environment and the welfare of workers in meat processing.

Bananas are traded in a classic oligopoly. A small number of vertically integrated transnational corporations – Chiquita, Dole, Del Monte Fresh Produce, Noboa and Fyffes – dominate international banana marketing and trade, and these companies are able to exercise their market power at several or all the stages of the banana marketing chain. Although these multinationals are vertically integrated in sourcing, shipping, ripening, packing and distribution, they are moving away from direct ownership of production. As with other commodities, preferred-supplier arrangements are now the norm, with contracts specifying standards for quality, packaging etc. Only around 12% of revenues from banana retail sales remain in producing countries, despite the very limited amount of product transformation outside of the farm or plantation. The dominance of retailers has had an increasing influence over the structure and distribution of value along the banana chain. The shift of profits up the chain has been dramatic over the last decade, and the transnationals' margins on bananas are now very slim. Forty percent of retail value may stay with the supermarket even though this is the least demanding part of the chain. Lower prices for supermarket suppliers are felt keenly in exporting countries, making it impossible for growers and labourers to be paid legal minimum wages. International buyers are in effect obliging all banana-exporting countries to reproduce Ecuador's poor labour and environmental conditions

Fresh fruits and vegetables, like pork and poultry, have little state interference in production and markets, a prevalence of contract growing, and strong retail governance which has restructured supply chains and has had major impacts on horticulture export industries in the tropics. The sector is one area where 'developing' countries have been able to engage in global markets. However, returns are highly concentrated at the end of the chain in the importing countries.

Equity and fairness in trading relationships is required to create a 'level playing field' for the world's farmers, farm workers and rural communities and reverse the marginalisation of farming and rural areas. But agricultural trade reform alone is not enough. Changes are also needed in other areas, including public and private sector policy:

1. Re-evaluation of international supply management. Although international commodity agreements have not necessarily secured a balance between supply and demand at fair prices, it is time to refocus global commodity supply management on the concept of sustainable development. Considering the very different objectives of the chain actors, and the retreat of the state from commodity markets, this will require new thinking by producing and consuming states, farmers' associations and the private sector in both producing and consuming countries.

2. Global competition policy. Economic globalisation has made it necessary to improve world governance on questions of monopoly and competition, but no international competition standards exist to regulate corporate activity from one continent to another. The development of a WTO Competition Law Framework is headed in a very different direction: simplification of regulation across national boundaries to facilitate transnational commerce and market access for goods and services from the industrialised world. There is heated debate as to whether the WTO is the right forum to address global competition issues. ActionAid have proposed the establishment of an independent international body to manage anti-competitive behaviour by companies. Considering how much of agrifood trade, processing and retailing is in the hands of a small number of corporations, it would also be important to include a monitoring facility in such an agency. In this way it could take on some of the roles of the extinct UN Centre for Transnational Corporations, which has only partly been superseded by the UN 'Global Compact' and the OECD guidelines for multinational corporations.

3. New approaches to national competition policy which address buyer power. Buyer power undermines justice and fairness in the supply chain, and the traditional competition policy focusing on seller power and consumer welfare is inadequate. Buyer power needs to be examined in the development of national competition policy on its own terms. The concepts of distributive and procedural justice – how the costs and benefits are divided between trading partners, and procedures and policies in that trading relationship – are central to this process.

4. Corporate leadership in mainstreaming fair trade. Retailers need to think of themselves as gatekeepers to the food system, rather than simply as 'grocers'. They have not

really woken up to the growing pressures on their businesses to deal with their supply chains with fairness and justice. Food manufacturers and retailers can lead the way by applying fair trade concepts to all of their trade with ‘developing’ countries, and expanding them to trade with industrialised world producers of fresh produce, meat, dairy etc. as a corporate standard. In this way consumers can be assured that their purchases have not contributed to the exploitation of producers and workers. A cornerstone of fairness in trading is improved access for small and family farmers to buyer-driven chains, achieved in part through the involvement of producers in the development of non-discriminatory standards.

5. Civil society and ethical investor activism. Corporate concentration has its advantages; the huge firms are large targets for concerted civil society and shareholder activism, or consumer boycotts. Sustainability – including fairness and justice for farmers, workers and suppliers – can be made a competitive issue. Options for activists include either drawing attention to best performers, or constructing league tables and ‘naming and shaming’ companies with a history of poor performance. Concerted civil society advocacy depends on reliable information, not only on ownership but on the food systems ‘clusters’ which can lead to non-competitive behaviour between transnational firms.

For a copy of the full report please contact the UK Food Group

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